The Magazine of Wall Street

and BUSINESS ANALYST

JUNE 27, 1953 85 CENTS

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By OUR STAFF

— On Business — On Investments

A Business Cannot Stand Still

This, taken from the latest in a series of messages accompanying dividend checks to shareholders of Socony-Vacuum Oil Co., Inc., is reprinted here in the belief that it may interest a wider audience than the company's 174,000 stockholders.

SOONER OR LATER earnings determine dividends, and ultimately earning power determines earnings. Over the years Socony-Vacuum has been steadily increasing its earning power, primarily by plowing back earnings to improve the balance in its operations.

Compared with what we had when Socony became an independent company forty-two years ago, our progress is obvious. Socony in 1911 had no crude oil production and only about a third of the refining capacity it needed. It was very largely a world-wide marketing organization.

Seven Years of Progress

As recently as 1934, a few years after the merger with Vacuum Oil Company, Socony-Vacuum still produced barely half of its crude oil requirements, and still refined only about three-fourths of the products it sold. The progress towards self-sufficiency achieved by our company since 1946, measured in terms of physical units, has been the greatest of any seven-year period in our history.

Most of us dislike figures, or at least prefer them in small doses, so I have assembled these in one place where if you wish they can be easily skipped over. All are barrels a day.

*Our Operations World-wide**	*1946*	*1952*	*% Gain*
Domestic and foreign crude supply**	233,000	507,000	118
Refinery runs	414,000	612,000	48
Sales	508,000	692,000	36

*Excluding Standard-Vacuum.
**Including long-term contracts.

The gains may be clearer if our crude supply is expressed as a percentage of our refinery runs, and if our refinery runs are similarly related to our sales. In 1946 crude supply was 56% of runs. Last year it amounted to 83%. In 1946 our runs were 81% of our sales. In 1952 the figure was 88%.

The Price of Success

Naturally, all this has cost a lot of money. Our capital expenditures, investments and indirect obligations, and dry-hole expense for the seven years since the war total nearly a billion four hundred million dollars. More than half was spent to improve our crude oil supply position. The next largest outlay was $210,000,000 to expand and improve our refining facilities. Marketing required $153,000,000 and transportation $90,000,000.

We estimate another $317,000,000 will be spent this year in roughly the same proportions, $275,000,000 in the Western Hemisphere plus $42,000,000 elsewhere. The eight-year total thus will be more than a billion seven hundred million dollars, three-fourths of which will have been spent in the United States.

Only Road is Forward

In our competitive society a business simply cannot stand still. It must either go forward or dry up. Should we slacken our efforts, you can be sure our many aggressive competitors would soon leave us far behind. And some day we would end up with no business at all.

The only alternative is to try to go forward.

We have no ambition to dominate the market or even necessarily to maintain our present position in it: But we do want to keep faith with our shareholders and the public, depending on us for a supply of petroleum products.

Bigness is Essential

This may result in continued growth, which in turn may make a big business even bigger. And that may subject us to more of the evil things so frequently said about big business. We feel that big business is essential.

Working Together

More and more we see big business working in cooperation with small business. In our judgment the one is dependent equally on the other. In this important matter, neither the human relations considerations, nor the economic, are all on one side. In the future, as has been the case in the past, occasions may arise to make it seem desirable for us to comment on this subject in more detail.

Sincerely yours,

GEORGE V. HOLTON
Chairman of the Board

Socony-Vacuum Oil Company, Inc.

and Affiliates: Magnolia Petroleum Company, General Petroleum Corporation

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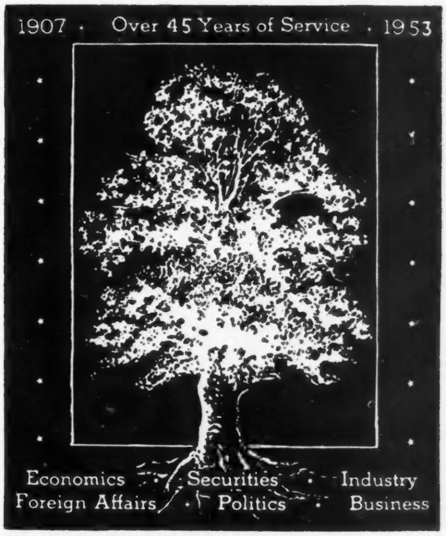
THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

AT LEAST THERE WAS NO STRIKE . . . The United Steel Workers of America, CIO, and the steel industry came to a speedy and peaceful solution of the wage problem agreeing to a wage increase of about 8½ cents an hour, equivalent to about 10 cents if some minor technical adjustments are considered. Without loss of time, the industry raised prices, varying from $4 to $10 a ton. A chain reaction may now be expected among large consumers of steel with prices probably to be raised on such products as refrigerators, dishwashers and other heavy consumer goods. The raise in steel wages—and the prior rise in automobile wages—will also have a bearing on other industries such as petroleum and shipbuilding where new wage contracts have been delayed pending a final decision in steel.

The inflationary impulse set in motion by these events will add industrial costs to the already burdensome present levels and will raise obvious new hazards to the consumer markets. Coming at the present uncertain stage in our economy, both the newest series of wage rises and the resultant price increases will contrive to add to the confusion.

The timing of these wage demands is, therefore, of unusual interest. In the steel industry, for example, operations are not expected to continue indefinitely at present capacity levels. In fact, a downturn is expected during the fourth quarter. The union leaders have been as aware of this prospect as the executives. Yet that has not prevented them from asking for and obtaining a fairly substantial wage boost. Normally, union leaders might be expected to hesitate to ask for higher wages just prior to an anticipated decline in their industry's business. The fact that they have chosen to ignore this situation would seem to indicate that they recognize this will be their last opportunity for higher wages for a very considerable period. As it were, they are "making hay while the sun shines."

No doubt the steel workers will be benefitted temporarily. Nor will the steel industry suffer as long as the mills operate at capacity. If the economic situation should deteriorate, however, and demand for steel slacken both the unions and the industry would find that the latest wage increase would be difficult to absorb if the mills were to run with any semblance of operating efficiency. The fact is that wages are already so high as to make it comparatively unprofitable to operate the higher-cost mills and that, at the first signs of a down-turn in the steel industry, a contraction in employment would have to be faced. Under those conditions, the union membership could easily find itself with a total take-home pay actually under that received before the latest boost in wages.

Since the ending of World War II, all previous wage increases have been against a background of an expanding economy. The current raise however occurred at a time when there is general doubt over the outlook for business in the next year. It would seem, therefore, that the un-

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

ion leadership in ignoring this situation, in effect is taking a gamble on the continuation of business at present high levels without any interruption whatever.

It may be that the union leadership, in gaining the latest wage increase in the face of growing economic uncertainties, felt that it had nothing to lose. Certainly, as the speed of the negotiations showed, the union leaders had the bargaining advantage, unless another costly strike was to be risked by the industry. Yet ,in the long run, it may transpire that the unions would have been wiser to have adopted a more moderate policy and not to have asked for higher wages at this particular phase of our economy.

EISENHOWER AND TVA . . . President Eisenhower said something much to the point last week when he described the Tennessee Valley Authority as a symbol of creeping socialism. There have been too many Americans who proclaimed their abhorrence of socialism, but nevertheless accepted the contention that jobs like TVA were simply too big for private industry.

Here are some of the facts bearing on that contention:

Electric utility construction in Herbert Hoover's term was greater than in the first six years of Roosevelt's long regime. In part this stemmed from overbuilding in the late twenties, of course, but there was a large element of fear in the almost complete cessation of private utility expansion once the TVA project had commenced. As a matter of fact, the country simply got more kilowatts in a region which in truth needed them but it also got fewer kilowatts in the developed areas of the country which needed them, perhaps more.

Fact No. 2 is that the Tennessee Valley region has not outstripped its neighbors in electric use, as often claimed. Actually the areas served by the Southern system—survivor of the Commonwealth and Southern chain destroyed by TVA—have increased their use of electricity more per person in the last decade than has the TVA empire. Moreover, the load has been better diffused among the small users. TVA power goes in big and not especially remunerative chunks to large industrial users.

Fact No. 3: The bookkeeping of TVA has been denounced by a comptroller-general of the United States as understating the actual costs of power. This understatement is as old as the TVA itself. Its vaunted flood control in the valley consisted of buying the land once subject to flooding, and covering it with lakes. Engineers calculate that its effect on the whole Mississippi River system is about of the dimensions of a six-inch reduction of flow "over the sill" where the Tennessee enters the Ohio. The sums charged to navigation aid would have paid the freight to deliver by rail to consignees' doors every ton the river has ever carried.

It is regrettable, since the President went as far as he did in braving the wrath of public power fanatics, that he seems to feel himself unable to do anything about it. He can do much. First of all, the program of firming TVA power with steam plants should be halted. The pretense under which the whole program operates is that power is produced incidentally to flood control and navigation. Steam plants fit into neither. Where TVA power can be used profitably as peak load, municipalities or private utilities should be willing to build the steam plants. Where it can't, it isn't the government's place to provide a service at a deficit.

SHAM BATTLE . . . In the sense that members of Congress feel strongly about the reduced appropriations in the Air Force contained in the Eisenhower budget for fiscal 1954, the furore they are raising over the $5 billion slash from the Truman recommendations may be justified.

Practically, however, the bigger Air Force bloc will not get anywhere, so that its crusade becomes merely a meaningless exercise in forensics, for which the country doesn't have a great deal of time. It might well, therefore, be omitted.

The President, with his enormous prestige in military affairs, has promised the nation that his economies will not imperil a reasonable posture of defense. Any effective contradiction of this position, if it is possible at all, must rest on revelations of information properly locked in secret files. We may hope that there will be fewer appearances of such data under a former five-star general than there were in the past.

The Magazine of Wall Street has never countenanced suppression of public debate on any topic, and doesn't now. But since the outcome of the challenge to the budget is a foregone conclusion, such statements as Senator Mundt's charges that "the defense budget contains everything but defense" do much less good than harm. We wish their makers could persuade themselves to a little self-restraint.

THE INDICATED COURSE FOR THE N. Y. STOCK EXCHANGE . . . It is anticipated that the New York Stock Exchange will increase its commission rates in the not-distant future. This move, apparently, is supported by a majority of members who feel there is no other way open to them to compensate for the rising costs. To stress their need, these members also can point to the shrinking daily volume of transactions as a contributing factor to their dismal profit showing.

While it is not surprising that the members should want to charge more for their services, we suggest that a more profitable and lasting way of increasing revenues would be to intensively cultivate the great American public. This source in reality, has not yet been tapped as indicated by the extremely limited public participation in the stock market over recent years. In fact, the stock market is the only segment of our economy which has actually shrunk in the past decade or so, this in a period when national income has more than doubled.

There must be specific reasons for this obviously poor performance. We believe one of the most important reasons is that the Exchange has not as yet made the necessary prolonged and consistent effort to gain and hold the confidence of the general public. This public consists of farmers, housewives, teachers, professional people, small businessmen and others with limited incomes. Yet the total investment potentials of this mass of people is enormous. There is no sound reason why (*Please turn to page* 418)

As I See It!

By JOHN CORDELLI

LEADING FROM STRENGTH OR WEAKNESS?

Are the Russians acting out of strength or weakness? What is the Kremlin's game now? The American public will be asking and debating these questions during the months to come. Crucial decisions will have to be made during these months, for if we persuade ourselves that the Russians are acting out of strength, it may be difficult to avoid another general conflagration. If, on the other hand, we convince ourselves that the Kremlin is acting out of weakness we may expect some definite subsiding of the present international tensions.

Many international observers argue that since Stalin's death the Kremlin has been acting out of weakness. They interpret some of the recent actions: wide amnesty grants, price reductions, step up of the output of consumer goods and a lot of promises about more housing, as a sign that the cabale now on the top in the Kremlin is unsure of the support of the Russian people. What's more, the present rulers—whoever they are—are unsure of their own party backing. The men of the Kremlin are said to be interested in consolidation rather than in new conquests.

And there is trouble and discontent in the satellite areas. "A spontaneous manifestation of freedom" to quote the High Commissioner of the United States in Germany, Dr. Conant, has taken place on the streets of Berlin and Pilsen. Despite the warnings of party hacks and the intimidations of block wardens, the German and the Czech workingmen have defied their communist leaders. European nationalism is asserting itself not only in the Western part of the Continent where the United States has come in for increased criticism, but principally in the Eastern half where the Russians are now faced with an out-and-out uprising

FERMENTING GRAPES OF WRATH

Dowling in The N. Y. Herald Tribune

However the other school of international experts argues that the Russians are acting out of strength. They say that the devastating currency devaluation in Czechoslovakia could hardly have been ordered if the Russiandominated communist clique in Prague was not firm in the saddle. Candor and the attempts at the conciliation that have been emanating from the Kremlin during the last months are also interpreted as signs of strength. The present masters of the Kremlin, these experts argue, are far more cunning, far more efficient at pursuing the policy aimed at the disintegration of the Free World's anti-communist coalition than Stalin ever was. In fact, the Russians are painted as clever Machiavelians who by exploiting Western Europe's displeasure over our trade policies and by offering unlimited markets for Western Europe's goods, have once more captured the initiative on the international scene from the Americans.

But have the Russians really captured the initiative from us? Have they stolen a march on us by advocating the earliest possible unification of Germany? There are people who believe that the East Berlin demonstrations may have been engineered by Russians to confuse the West but got out of hand because of the German workers' spontaneous hatred of the Russians. It could be argued that by consenting to German unification on the West's terms, the Russians hope to stir a hornets nest of problems for the West with the hope of torpedoing for good the West European Defense Community.

However, we are inclined to regard the Russian willingness to pull out of (*Please turn to page* 420)

What of Your Stocks?

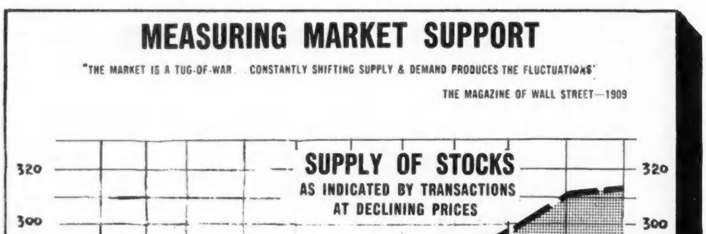
—As Security Prices Adjust to Realistic Values

The market met encouraging support under further pressure within the past fortnight, but improvement has been limited by fresh Korean uncertainty. Given satisfactory clarification of the latter, a summer recovery phase should be possible. We do not advise selling here. However, you should continue to maintain conservative reserves.

By A. T. MILLER

Market gyrations over the last fortnight footed up to a moderate net decline for the period, but with some tentative indications that, for a while at least, the worst may have been seen, since, in a further test in the forepart of last week, support was met around the lows recorded in the previous week.

Here is the pattern of the fortnight: The Dow industrial average sagged to a low of 263.35 on June 10, rallied slightly, then dipped to 262.88 on June 16, rallied sharply (nearly 3 points) on June 17, thereafter flattening out to the week end. At worst, the extension of the June 10 low in closing prices was fractional. The average met support in the immediate vicinity of last October's pre-election intermediate low of 263.06. The rail average reached a low of 99.58 on June 9, but held above it (at 100.48) on test early last week, rallied more sharply in percentage than industrials on June 17, remaining in a narrow range thereafter up to this writing. This average's low of last October (98.39) remained intact. Continuing under a relatively greater handicap, as a result of the wide upward adjustment in bond yields, the utility average sank to a new low of 47.88, against last October's low of 48.81, on June 16, and has had no more than a nominal subsequent rally.

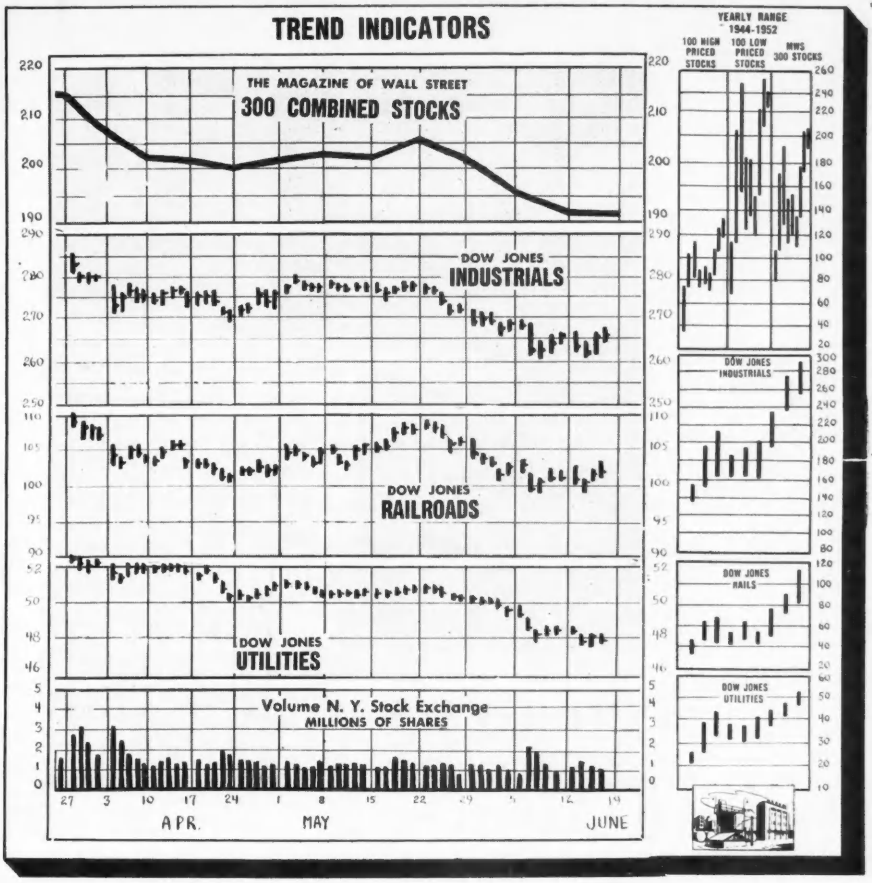


Uncertainty Still Emphasized

If there were nothing in the news to account for it, the quick abatement of a good one-day rally, the following establishment of approximate double-bottom lows by industrials and rails, would suggest a continuing dubious technical position. But the latter question is left conjectural, pending later indications, since the startling effort of the South Korean government to torpedo the truce, by releasing anti-Communist North-Korean prisoners of war, makes the whole Korean prospect more foggy than it has ever been; and this news may well have accounted for the market's reversion to a wait-and-see mood in recent days.

At the lows to date the industrial average had declined nearly 11% from its bull market high of last January, the rail average nearly 12% from its high of last December, the utility average about 11% from its March major high. These

are substantial adjustments. They compare with declines in these averages of 23.2%, 39.8% and 26.2%, respectively, in the minor bear market of 1946-1947; and with declines of 13.3%, 36.8% and about 6%, respectively, in the minor bear market of 1948-1949. They have made a considerable allowance for uncertainties, and for a later business shrinkage which is still in the conjectural stage as regards both timing and scope, since overall economic activity remains on a high plateau very close to the best postwar levels reached in the spring.



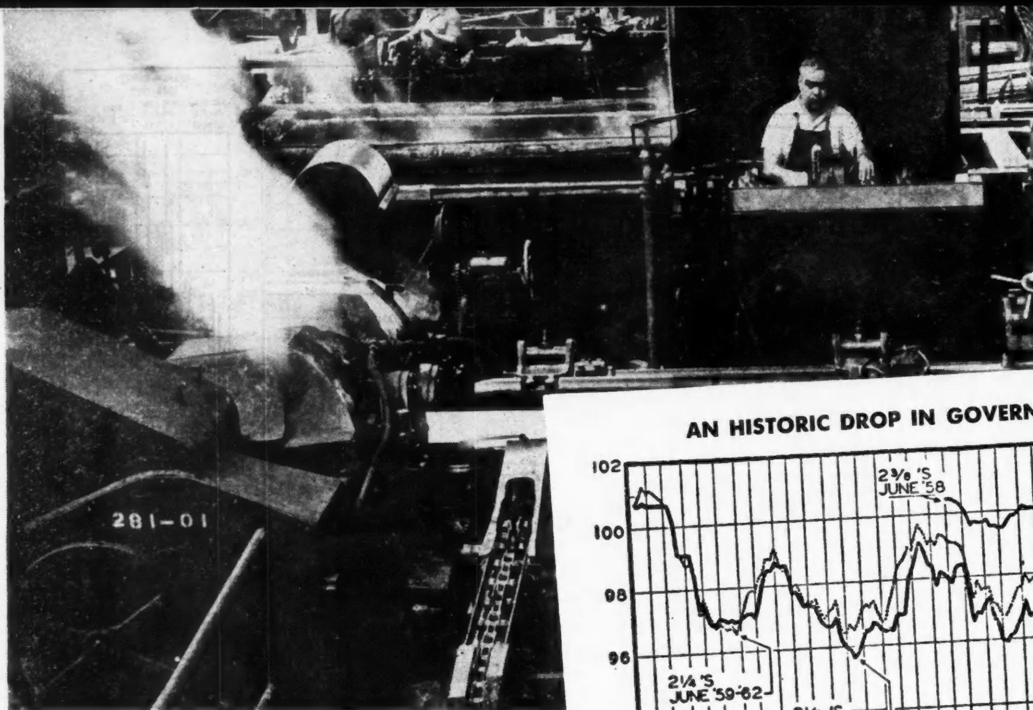
Hence, the market may well be in a position to stage at least a material summer recovery merely in a reversion from too much pessimism too far ahead of tangible evidence of cyclical shrinkage in business. Any good news would help, such as perhaps the failure of Congress to extend the excess profits tax. Definite clarification of the Korean truce question, one way or the other, might help. On the other hand, it is a thin, low-volume market, capable of responding disproportionately either way—at least on a week-to-week basis—to moderate shifts in sentiment and in the supply-demand balance made by buyers and sellers. While it can respond to good news or even rally without the aid thereof, the degree of decline put behind does not, of course, assure full immunity to possible bad news which remains, as for some years, an ever-present contingency in foreign affairs.

Regardless of whether recent lows hold, and regardless of the chances for a recovery phase within the summer period, considerable time may be required for development of conclusive major-trend evidence. And the same is true of business-trend indications. The July factory mass vacations alone are enough to lower industrial production sharply from the June level in actual volume; and the seasonal adjustment of the Reserve Board index evidently does not allow sufficiently for this factor. The year-to-year production comparison in the third quarter no doubt will be favorable, for the measurement will be against the steel-strike period of 1952. The fourth quarter comparison most likely will be somewhat unfavorable at best, viewed against sharply rising production in the post-strike rebound a year ago.

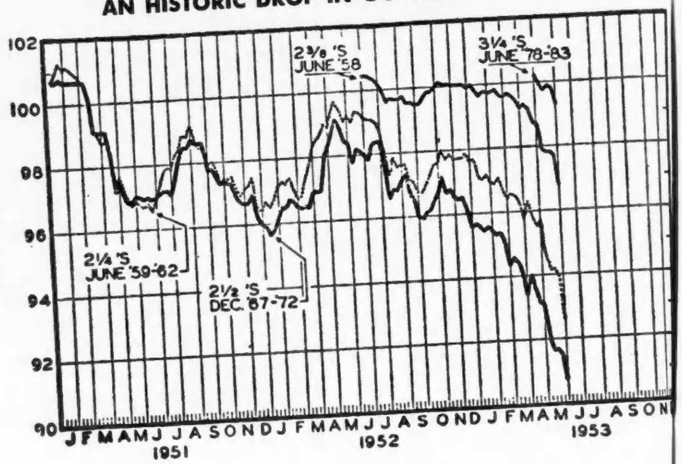
So the significant test will not be year-to-year comparisons in the third and fourth quarters; but how activity, after the July curtailment, will compare with the high spring level. The current economic indicators leave that question open, with the strong and soft spots pretty well cancelling out. We have continuing record plant-equipment outlays, high automobile output, near-capacity steel output, some easing tendencies in residential building, well-maintained retail demand, an unpromising export-trade trend. We have deflation in farm prices, upward tendencies in a few industrial areas, notably steel, oil products and some chemicals, substantial price stability in most others. The money supply is still expanding, credit demand remains high, and the period of heavy Federal deficit financing is just ahead.

Some Basic Considerations

Despite the long duration of the postwar boom and the inevitability of some cyclical contraction somewhere ahead, the economy is basically stronger and more flexible than in the past and more given to "rolling" adjustments in different areas at different times. There are more middle-income families than ever before; and larger liquid resources, in individual hands and corporate treasuries, than ever before. On the whole, there is wiser, more capable corporate management than ever before. There are substantial built-in cushions in unemployment compensation; and, more importantly, in the fact that at present high tax rates any business shrinkage means an automatic infusion of billions of new dollars of bank money into the economy via Treasury deficit spending, quite aside from planned anti-deflation policies and devices (*Please turn to page* 420)



AN HISTORIC DROP IN GOVERNMENT BONDS



Is Treasury's "Sound Money" Policy Feasible Now?

By JOHN C. CRESSWILL

The decision of the Eisenhower Administration to reverse the credit policy of the last twenty years might well be regarded as the most important step that has been taken in relation to the American economy in a generation. It was not a hasty decision; it was taken in the full realization that the most profound reactions would result. But it can be said upon the highest authority that the change in policy has been made in the belief that only such a major operation would save the nation from a descent into something akin to economic chaos!

There has been the fullest recognition that the country must pass through a transition period which, conceivably, will result in casualties because of the reversal of a trend of such long endurance. There has been equal recognition that the move bears the seeds of serious political revolt—or at least the most earnest attempts to foment such a revolt. Nevertheless, the Administration has determined that the bitterest medicine is not too bitter if it will redeem the country from what the Republican leaders feel is a perilous attraction that could bring the economy to a very risky point, indeed.

The decision on the new credit policy at this time; that is, so immediately after the advent of the new Administration, was sternly dictated by the Budget position which, in the opinion of those in the Administration most concerned is more precarious than it appeared to be on Inauguration Day. The Secretary of the Treasury and the Director of the Budget and, as a result of their advices, the President of the United States, are far more uneasy than the Congress. Only heroic measures, it was concluded, could maintain the credit of the Natoin on a continuing sound basis.

Yet it should be stated with the utmost emphasis that this Administration, so largely under the leadership of experienced bankers and businessmen, is not fearful that the period of transition will prove disastrous. It would be idle, however, to say that the leaders believe the process of reversal will be easy or comfortable. What is believed with an almost fanatical certainty is that the action is imperative in the last degree!

Men prominent in the banking and business community have told Administration officials that it would have been preferable to delay implementation of the new policy a little and then, if possible, to put it into effect more gradually. The Administration answer has been two-fold. First, so far as the general Treasury and Federal Reserve policies are concerned, a start had been made two years ago when the Treasury-Federal Reserve accord came to an end, and, second, the fiscal situation had deteriorated so much as a heritage from the last Administration and, of course, the previous credit policy, that there was not a business day to be lost in bringing preventive measures to bear.

Joseph Dodge, the Director of the Budget, recently wrote a letter to the Association of Reserve City Bankers in which he pointed out that the last Administration had left authorizations to spend $81 billion. Not all of this is covered by contracts but

there are enough commitments so that, it appears, this Administration feels the item must be regarded as something to be met, over and above all other current and future obligations. Now, the accumulated deficits, also heritages, reach $37 billion, according to Mr. Dodge's figures, in 1954, and, at the same time, expiration of the excess profits tax and already provided reductions in corporation and individual income taxes must be counted on. So, the impact in 1955 will be very great.

A closely associated aspect which is causing the Treasury keen apprehension is the operation of what is known as the Mills plan of corporation tax payments which has been written into the law. Going back to 1951, it was provided that corporations should pay on March 15 and June 15 not the 25 per cent which applies to other taxpayers but 35 per cent. Then they would pay 15 per cent on September 15 and December 15. For 1952 the proportion of corporation tax payments advanced to 40 per cent for the first two quarters and 10 per cent for each of the third and fourth. Again, for 1953 the March and June payments are 45 per cent and the September and December payments only 5 per cent while in 1954 the entire corporation tax is paid in the first half of the year.

Pressure Against Corporations

Here is money pressure which has not been generally studied. The Federal Reserve Advisory Council at recent meetings has studied Government holdings and been amazed at the large portfolios carried by corporations. These represent accumulations against advance tax payments. They are believed almost certain to increase. While they are being held they will keep impounded enormous sums. It might be argued that the desire and need of corporations to acquire these securities would have a tendency to support the Government security market. Yet the holdings are for a definite known purpose and will all be turned over to the Treasury in payment of taxes within a brief period.

In sum, the Administration feels it is faced with such a maze of fiscal difficulties, arising from the avowed easy credit policies of the last two decades, that it can afford to lose no time in taking rapid and decisive steps to meet what is regarded as a mounting emergency. It is fully realized that the utmost political courage must be displayed to maintain the new policy. The array of almost frantic enemies of the policy would be terrifying to the Administration were it not more afraid of the long-term economic ills which would follow an easier course.

The current politico-economic situation is reminiscent of a scarcely known but dramatic episode which took place a generation ago. It was in 1920 and Governor James Cox of Ohio, with the young and forceful Franklin D. Roosevelt on the ticket, was running for President of the United States. The year 1920 was one of financial panic as one of many post-war results. A Democratic Administration was in power and W. P. G. Harding, an Alabama Democrat, was Governor of the Federal Reserve Board. Because of what was regarded as a dangerous credit inflation (although vastly less than the present one) the Federal Reserve Board progressively increased the bank rate.

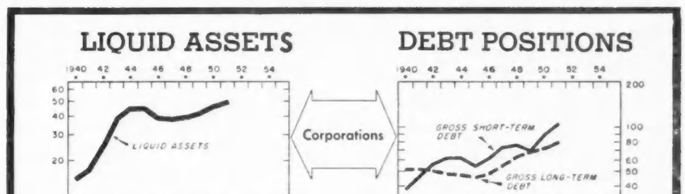
With the Presidential campaign well started, Governor Cox sent Governor Harding a telegram urging him either to reduce the bank rate or, at least, make no further increases. Governor Harding ignored the message. Later and not long before election, Governor Harding received another telegram from the Democratic candidate reading: "If the Federal Reserve Board does not reduce the discount rate, the Democratic Party will lose at the polls in November." Governor Harding replied: "The Federal Reserve Board is not a candidate."

It Takes Courage

For an Alabama Democrat, an appointee of Woodrow Wilson, that message required courage. Similarly, today, it requires courage for the new-fledged Republican Administration to embark upon a credit policy which is extremely unpopular in many quarters. Already, the Administration is receiving admonitions precisely parallel to those sent by Governor Cox and it is, by inference at least, replying as did Governor Harding.

Governor Harding, by his adherence to the bank rate brought an early end to the panic and kept the United States on the gold standard! *Today the Eisenhower Administration firmly believes that adherence to its policy will result in early stability and prevent the rapid decay of the American economy!*

As the new Treasury policy has developed, almost savage attacks upon the Administration have come



U. S. Dept. of Commerce

from Members of Congress and Representative Patman, Democrat of Texas, who headed a Joint Committee which studied fiscal affairs, has introduced legislation to direct the Federal Reserve Banks to resume the same sort of open market operations which, in the last Administration, were carried on for the purpose of pegging United States securities. Other members have joined with Mr. Patman and day after day there have been spirited debates in both Houses of Congress on the new credit policy.

For the present, at least, it is not believed that there is any likelihood of legislation intervening; indeed, the floor speeches of members savor much more of politics than of economics. Nevertheless, it is not to be denied that ammunition is being hoarded for use in the Congressional campaign next year. Nor have members of Congress refrained from something more than innuendoes that bankers and business men, high in the Administration, are manipulating the credit policy for the benefit of banks.

There are two other strong frontal attacks with political implications and threats. Veterans are complaining about the increase in rates on mortgages and crying betrayal. The veterans are especially articulate and have political strength. Other groups tell Congress that there has been a surrender to landlords and banks on this mortgage interest issue. While as yet it does not appear that there has been any large increase in funds offered for real estate mortgages, that will be an inevitable trend as readjustment proceeds.

Perhaps the most savage attack has come from organized labor. In an inflationary period of easy credit, it has been easier to gain wage increases and other benefits. Employers in recent years have felt that, in part at least, they could pass wage increases along in the form of higher prices for products. Moreover, employers have had little difficulty in financing inventories at low rates and otherwise cheaply commanding money. A tighter credit policy means stouter resistance to wage increases. So labor joins the cry against the new Treasury policy and is making now and can be depended upon to continue making fantastic charges against a capitalistic Administration, betraying the worker into the hands of the banker and profiteer. Labor leaders, demogogic Members of Congress and other politicians are gleefully joining hands. They are not hanging their harps on weeping willow trees and weeping when they think of Zion; they are tuning their harps to a lively lilt and chuckling gleefully as they look forward to a return of the New Deal, the Fair Deal and progressively softening money!

U. S. Economic and Monetary Developments – 1939-1952

(dollar figures in billions)

	At War's Beginning December 1939	At War's End December 1945	December 1952
Federal debt (U. S. government debt less U. S. deposits)	$46	253	262
Federal Reserve Bank credit	$ 3	25	26
Bank holdings of U. S. Government securities less U. S. govt. deposits	$19	78	67
Other bank loans and investments	$31	39	93
Bank deposits (other than U. S. govt.)	$57	124	167
Liquid assets held by individuals and businesses	$69	228	272e
Gross national product (annual total)	$91	213	345
Wholesale prices (1939 = 100)	100	135	213
Cost of living	100	130	192

e—Estimated.

Effect of Higher Money

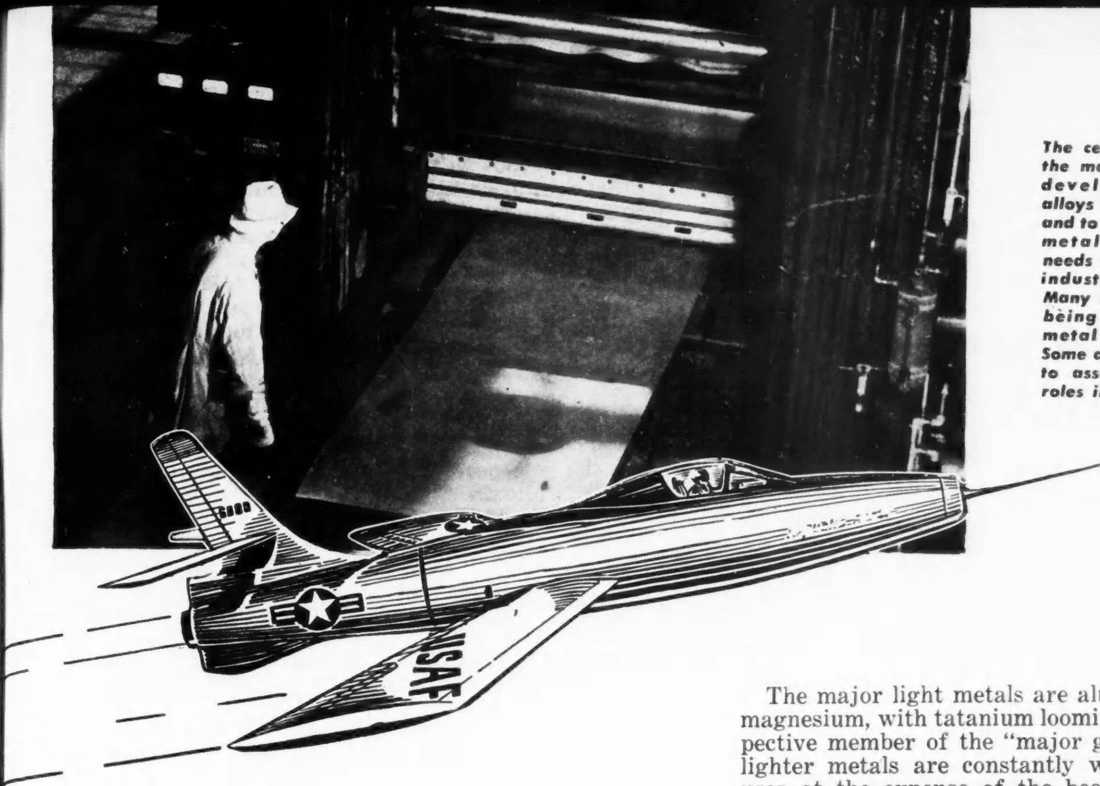
Concerning the impact of the new credit policy which has been felt so far, one remembers an anecdote which is told of Averill Harriman. Coming down to breakfast one fair Spring morning, he said to his wife: "I feel like a million dollars." "O, my dear", she is reported to have replied, "has something terrible happened?"

Press reports tell of cancellation or postponement of plans of industry, notably public utilities, to expand because of the risen cost of money. Yet official figures show no dismal picture. It is true that utilities' plans for new plant and equipment for the third quarter of 1953 call for $1,205,000,000 expenditure compared with $1,216,000,000 for the previous quarter—a decline of $11,000,000. But it seems to be overlooked that the third quarter figure is $258,000,000—more than a quarter of a billion—higher than the third quarter of 1952 which itself was high and that it is higher than any single quarter in the whole of 1952! So nothing terrible has happened. New plant and equipment figure for the first nine months of 1953 actually is 23 per cent ahead of the first nine months of 1952.

Far from being dismayed at reports that some enterprises have been postponed because of rising money costs, the Administration is gratified. It is believed that it may be well to defer some construction, both private and public, so that demands may be spread. Too intensive a concentration, in an open market, especially when competing against a Government defense program, quite naturally enhances costs not only of money but of everything else—labor, materials and intangibles. It is believed that unwholesome booms and costly depressions are more surely avoided by a more comfortable distribution.

Much play has been made of the decline of Government securities in the market. This has not brought dismay to the Treasury. So far as the speculative market is concerned, the alert trader thrives better on an active market when prices rise and fall than upon a static market, the result of the sort of freezing processes practiced during the last Administration. So far as the permanent investor is concerned, he suffers no injury whatever. Inasmuch as his investment is sound and, upon maturity, he will receive full face for any security he holds, he is not concerned with market quotations; indeed, on paper, he is receiving a higher yield!

And any policy, whether of stiffer credit or otherwise, which checks inflation does excellent service to the time-investors in United States securities. So many of these are held by insurance companies, savings banks and pension funds. The resources of such institutions are the wellspring of much fixed income. Were a situation created and perpetuated, as in the last Administration, steadily growing inflation and progressive depreciation of the purchasing power of the dollar constantly sapped at the values held, wholly apart from market quotations. In this immediate connection, the words of W. Randolph Burgess, Deputy to the Secretary of the Treasury, to the National (*Please turn to page* 415)



The ceaseless task of the metallurgist is to develop improved alloys of older metals and to bring forth new metals to meet the needs created by new industrial products. Many new names are being added to the metal family roster. Some appear destined to assume important roles in our economy.

New Metals

Revolutionizing Industry

By BENJAMIN W. CORRADO

The Atomic Age and the jet power plane promise to give the light metals the biggest boost they have had yet. World War II boosted aluminum production more than five-fold, and brought magnesium out of relative obscurity up to a wartime tonnage volume that exceeded the prewar production of primary aluminum. Now it looks as if aluminum will grow in importance equal to or greater than copper, titanium may be developed into another major metal, while other minor metals, such as beryllium, tantalum and zirconium are being put through the research wringer to help adapt them to new atomic age uses.

The basic demand for light metals not only stems from current military requirements, but from the continued need for weight-saving in industrial and consumer items. Lighter truck or commercial plane bodies permit a bigger pay-load, lighter freight cars permit longer trains, and savings in human effort and time are affected by such lightweight items as aluminum beer barrels, magnesium baby carriages, wheelbarrows, and ladders. Industry and consumer are both willing to pay extra in certain cases for weight savings. Thus, even when the current military demand for light metals diminishes, their peacetime uses point to wider and wider markets for them.

The major light metals are aluminum and magnesium, with tatanium looming as a prospective member of the "major group. These lighter metals are constantly winning new uses at the expense of the heavier metals, such as lead, zinc, copper, iron and steel. Of course, iron and steel are our two major structural metals accounting for some 95% of all the metal used in this country, so that the inroads of the light metals on the ferrous group can only be relatively small. On the other hand, the combined use of aluminum, magnesium, and titanium (about 1,300,000 tons in 1952) is 30% of the combined use of copper, lead and zinc (about 4,500,000 tons), and the gap between the two is steadily narrowing. The light metals (with the temporary exception of magnesium) are growing at the expense of the heavy nonferrous metals and alloy steel. Meanwhile, plastics usage has cut into all metals. But while these are the basic pressures at work in the metal field, we can see that they work more against certain metals and in favor of others.

Of all these metals, aluminum has the brightest outlook of the established metals, while titanium promises to be the most spectacular newcomer. At its present price of 20.5¢, a pound aluminum can replace 2.6 lbs. of zinc costing 28.9¢, 4.2 lbs. of lead costing 53.5¢, or 3.3 lbs. of copper costing 99¢, because aluminum offers more physical material per pound on account of its low specific gravity as compared with other metals (See Table I). In contrast to this, titanium's price of $5 per lb. gives it no competitive cost advantage right now, but its high melting point (1820° C.), its lightness (it is half as heavy as copper), and its corrosion resistance (greater than stainless steel, aluminum-clad steel, and nickel alloys) give the metal properties which point to its large-scale development. Since titanium is the fourth most abundant element on the earth's surface, following in order after aluminum, iron and magnesium, it has substantial potential for production increases, and as the supply grows its price will be brought down.

Only the uncertain status of magnesium clouds the

How Aluminum Compares With Other Metals

Metal	Cost Per Lb.	Specific Gravity	No. of Lbs. Replaced by 1 Lb. Aluminum	Comparative Cost of Equivalent Value
Aluminum	20.50¢	2.7	1.00	20.5¢
Steel	4.42¢*	7.864	2.9	12.818¢
Magnesium	27.00¢	1.7	0.63	17.01¢
Zinc	11.00¢	7.1	2.63	28.93¢
Lead	12.80¢	11.3	4.18	53.504¢
Copper	30.00¢	8.9	3.3	99.0¢

HOW MAGNESIUM COMPARES WITH OTHER METALS

Metal	Cost Per Lb.	Specific Gravity	No. of Lbs. Replaced by 1 Lb. Magnesium	Comparative Cost of Equivalent Value
Magnesium	27.00¢	1.7	1.00	27.0¢
Steel	4.42¢*	7.864	4.6	20.332¢
Aluminum	20.50¢	2.7	1.6	32.8¢
Zinc	11.00¢	7.1	4.18	45.98¢
Lead	12.80¢	11.3	6.65	85.12¢
Copper	30.00¢	8.9	5.2	$1.56

*—Average price for finished steel used to make figure more comparable. Steel ingot price is even lower than this.

light metal outlook. A few weeks ago, five of the six reactivated government-owned magnesium plants were shut down as not needed. The fact that private industry has not taken over these plants since World War II reflects the basic military use of this metal and its slow progress to win adaptation in civilian fields. From a World War II high of some 195,000 tons of primary and scrap metal placed on the market in 1943, primary magnesium slid down postwar to an annual rate ranging between 10-12,000 tons, with such low production partly reflecting the huge scrap supplies overhanging the postwar market. It took the current defense program to raise production of the primary metal to 105,821 tons in 1952, but this year's output will drop to less than 90,000 tons now that military needs are under control. The non-military demand for this metal seems to be limited, despite the fact that savings can be affected by substituting it for zinc, copper or lead (see Table I). Near-term demand following the defense program, however, should be better than the postwar low, since magnesium is used in many aluminum alloys, and its availability in sheet form is greater today than during World War II. But the problem of scrap may again hamper primary production. In any event, indications are that more market development work will have to be done for this metal. Dow Chemical Co. is the sole peacetime producer of primary magnesium, while the Aluminum Co. of America is a major fabricator of the product.

One factor which may help magnesium, as well as aluminum, is the prospect that atomic power may bring down reduction costs for these metals, since power costs are an important element in their price structure.

Aluminum should be on an equal footing with copper from the supply standpoint by 1955. By that year, domestic primary capacity will have been expanded to 1,746,000 short tons, and scrap aluminum recovery will probably approximate some 500,000 tons annually. Moreover, another 210,000 tons of Canadian aluminum will be made available by Aluminium, Ltd., under contracts it made with Aluminum Co. of America and Kaiser Aluminum & Chemical Corp. for 100,000 tons annually, and its promise to reserve 110,000 tons more for independent U. S. fabricators who do not make their own primary metal. Since Alcan has lower costs than any U. S. producer, it will pay these companies to bring in primary Canadian aluminum for fabrication here. Aluminum Co. of America is the major producer of the metal with its capacity expected to be around 575,000 tons upon completion of present expansion plans. Reynolds Metal will have an ingot capacity of some 414,000 tons by the end of this year, and Kaiser Aluminum's capacity is slightly under that.

Our fabricating facilities are also being expanded. By 1955, our sheet, plate and foil capacity will have been expanded to 1,296,000 tons annually from 954,000 tons in 1950, and our heat-treating facilities will be more than doubled from 351,000 tons in 1950 to 774,000 tons. Thus,

Comparative Production of Light Metals and Steel

(All Net Tons)

	Aluminum Primary	Aluminum Secondary	Aluminum Total	Magnesium Primary	Magnesium Secondary	Magnesium Total	Ingot Steel Production
1952	937,331	n.a.	n.a.	105,821	n.a.	n.a.	93,168,039
1951	836,881	292,608	1,129,489	40,881	n.a.	n.a.	105,199,848
1950	718,622	243,666	962,288	15,726	n.a.	n.a.	96,836,075
1949	603,462	180,762	784,224	11,598	n.a.	n.a.	77,978,176
1948	623,456	286,777	910,233	10,003	6,000E	16,003	88,640,470
1947	571,750	344,837	916,587	12,344	n.a.	n.a.	84,894,071
1946	409,360	278,073	687,433	5,317	n.a.	n.a.	66,602,724
1945	495,060	298,387	793,447	32,792	9,247	42,039	79,701,648
1944	776,466	325,645	1,102,111	168,337	14,928	183,265	89,641,600
1943	920,179	313,961	1,234,140	184,078	11,357	195,435	88,836,512
1942	521,106	198,492	719,598	48,980	3,951	52,931	86,031,931

n.a.—Not Available. E—Estimated by U. S. Bureau of Mines.

FLAT-ROLLED SHIPMENTS

	Aluminum Plate, Sheet & Strip	Magnesium Sheet, Strip & Plate	Steel Sheet & Strip
1952	542,849	5,500E	20,583,156
1951	536,683	5,761	26,273,078
1950	581,567	3,357	26,683,117
1949	395,012	2,155	19,651,639
1948	634,148	1,216	21,109,710
1947	555,579	938	19,477,338
1946	433,491	1,705	14,355,413
1945	369,300	1,450	13,583,125
1944	449,900	1,154	12,197,362
1943	387,050	840	11,022,723
1942	270,200	439	10,685,080

E—Estimated by the author.
Sources: American Iron & Steel Institute, the U. S. Bureau of Mines, and American Metal Market.

more flat-rolled aluminum than ever before will be available for consumer uses when the defense program diminishes in importance in the aluminum picture.

Aluminum vs. Copper

But aluminum could cut heavily into copper use if durable goods producers begin to substitute the former for the latter more widely to save material costs. With labor costs rising and a softening in the civilian economy in prospect, aluminum producers could make their strongest gains yet. The metal has already attained wide use in the electrical field as a substitute for copper in wire and power lines, in generators and conduits, and in electric bulb bases. It is being substituted for copper and brass in the building field in its usage for roofing, siding and screens. But the metal could also cut further into the business of other metals all the way from alloy steels to lead and zinc. A newly developed aluminum alloy might replace stainless steel and chrome alloy trim in automobiles. Aluminum could be more widely used in autos all the way from gears, to pistons, carburetors, radiators, cylinder heads, blocks, and even an all-aluminum engine is a possibility. With auto producers likely to be seeking lower costs more aggressively as volume slides off, greater consideration will be given to possible economies through the increased substitution of aluminum.

Up to a short time ago, titanium metal was of small importance, since 99% of all titanium production went into making pigments. Thus, of the 413,000 tons of titanium concentrates shipped in 1949, only a small amount was used to make 6,377 tons of alloys and carbide, containing 2,591 tons of titanium. Production of the element as a pure metal was started on an experimental basis in 1948. Yet, by 1951, only 550 tons of titanium sponge had been produced in a single year.

But defense needs underlie plans to expand production of titanium metal to 22,000 tons annually by 1955. The advent of the jet-engine, guided missiles and rockets brought with it demands for metals that could withstand high temperatures and yet had the property of lightness. Titanium fills this bill, having a higher melting point than nickel, which has been in tight supply due to its heavy usage in jet engines. Moreover, titanium has high corrosion resistance, excellent flow characteristics, requires no heat treatment after forging, and can be die-cut and rolled into various shapes very easily. The metal also looms as a possible substitute for manganese in steel, and important defense considerations since 85% of our manganese requirements are imported. Moreover, use of titanium in certain alloys can reduce the amount of tungsten required, and tungsten is another item for which we are highly dependent on foreign sources.

Metallurgists had had difficulty in bringing titanium along until recently due to problems in its melting, during which it tends to absorb oxygen, hydrogen or nitrogen if they are present, and it also had dissolved all refractories that attempted to contain it during the melt. As a result, the metal has had to be melted either in a vacuum or an inert atmosphere, such as argon or helium. Metallurgists also discovered that the metal could be dissolved in a cold-mold arc furnace with the titanium freezing a skin on the cold mold so that it can actually be melted in a crucible made of itself.

Combinations Entering Titanium Field

Substantial sums must still be spent in experimental and development work before the metal emerges into a large-scale production item. This is one reason why so many of the companies attracted by titanium's huge potential have paired up, aside from the fact that they have sought to share research ability on the one hand with existing processing facilities on the other, and otherwise pooled their resources or facilities. Such combinations include National Lead and Allegheny-Ludlum Steel, which jointly own Titanium Metals Corp.; Kennecott Copper and New Jersey Zinc, which jointly own Quebec Iron & Titanium Co.; Remington Arms Co. (Du Pont controlled) and Crucible Steel, which jointly own Rem-Cru Titanium Co.; the Ferro Corp. and Monsanto Chemical Corp. with interests in Horizons Titanium Corp.; and the cooperative activities of Sharon Steel and the (*Please turn to page* 416)

Important Companies in Light Metals

GROUP I — ALUMINUM, MAGNESIUM, NICKEL AND ALLOY PROCESSORS

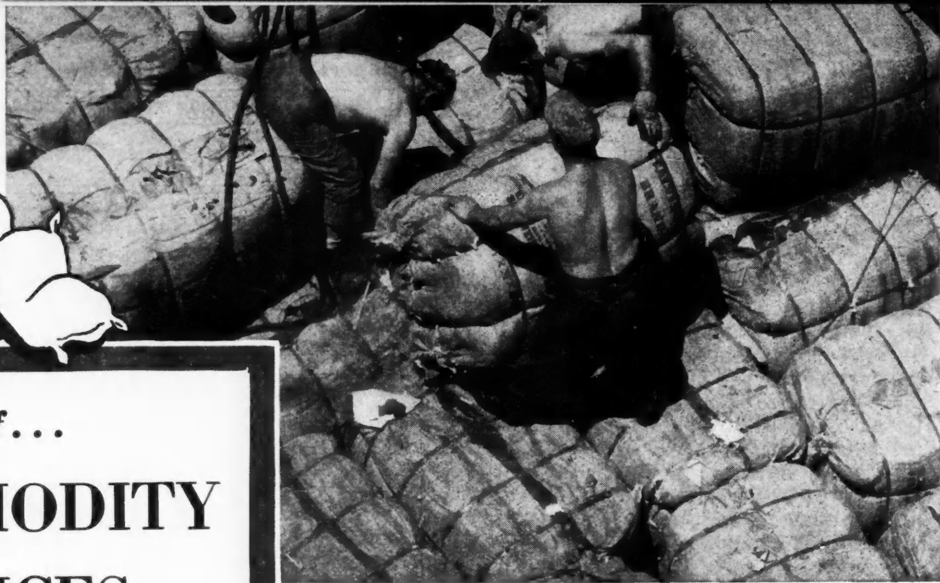
	1951		1952			
	Net Per Share	Div.	Net Per Share	Div.	Recent Price	Div. Yield†
Aluminium, Ltd.	$ 3.51	$ 1.77	$ 2.73	$ 2.00	43	4.6%
Aluminum Co. of America	3.77	1.37	4.19	1.50	43	3.5
Dow Chemical	2.00[1]	.80[2]	1.65[1]	.80[2]	33	2.4
Du Pont	4.64	3.55	4.70	3.55	91	3.9
International Nickel	4.18	2.60	3.91	2.60	39	6.6
Kaiser Aluminum & Chemical	4.38	1.30[2]	3.10	1.30[2]	26	5.0
Republic Steel	9.03	4.00	7.21	4.00	46	8.7
Revere Copper & Brass	5.39	2.50	5.28	2.50	36	6.9
Reynolds Metals	9.63	1.10	8.72	1.00[2]	48	2.1

†—Based on 1952 dividends. [1]—Year ended May 31. [2]—Plus stock.

GROUP II — THE TITANIUM GROUP

	1951		1952			
	Net Per Share	Div.	Net Per Share	Div.	Recent Price	Div. Yield†
Allegheny-Ludlum Steel	$ 5.40	$ 2.50	$ 3.37	$ 2.00[1]	32	6.2%
Crucible Steel	11.90	[2]	6.13	[2]	28	
Ferro Corp.	3.76	1.60	2.30	1.60	20	8.0
Kennecott Copper	8.44	6.00	7.96	6.00	64	9.3
Mallory (P. R.)	3.19	1.50	3.12	1.25[1]	41	3.0
Monsanto Chemcial	4.70	2.50	4.29	2.50	82	3.0
National Lead	2.05	1.41	2.06	1.45	31	4.6
New Jersey Zinc	5.06	3.00	6.15	3.00	49	6.1
Remington Arms	.71	.45	.78	.50	7	7.1
Sharon Steel	8.06	3.50	4.65	4.00	41	9.7

†—Based on 1952 dividends. [1]—Plus stock. [2]—Paid 16% stock in 1951 and 10% stock in 1952



A Study of . . . COMMODITY PRICES *In War & Peace*

By THOMAS L. GODEY

The end of the war in Korea will have a definite influence on the future of commodity prices. Historically, as the chart on the next page shows, commodity prices are inflated in war times and deflated when hostilities cease. The present is no exception, with this qualification, that the end of the war in Korea has been in process of being discounted in the commodity markets for quite some time. The actual end of the war, however, will tend to deepen the decline. There are many reasons for this. One is that the rapid consumption of ammunition, food, clothing, petroleum and other items used in war naturally ends with the firing of the last shot. This means that these stocks need no longer be replaced. Another reason is that productive capacity throughout the world has greatly increased since the end of World War II and that this is now larger than actual demand. The result is that surpluses are being built up, in place of shortages. All this naturally has a dampening effect on prices.

A glance at the chart shows that after the cessation of all previous wars, prices have fallen. In modern times, for example, prices more than doubled between the beginning of World War I and its end. Within two years after the final bugles blew, however, commodity prices started a downward slide that carried them 45% below their peak.

During the second World War, prices also rose by some 100%, but by mid-1948, about three years after the war's end, they commenced a drop that carried them down about 10%. Were it not for the unexpected inflation caused by the Korean war, there is reason to believe that the 1948-1949-early-1950 decline in commodity prices would have continued and eventually brought prices down by a much larger percentage than actually occurred. The Korean war interrupted this basic trend but it was resumed as far back as early 1951 and is now in process.

Drop in Raw Materials

According to the U. S. Dept. of Labor Index of 22 Basic Commodities (the most sensitive index), prices of these important raw materials have declined more than 35% since the early 1951 peak. The declines have by no means been uniform as illustrated by the following: corn, 20%; cotton, 24%; lead, 34%; rubber, 71%; tin, 47% and wheat, 15%.

While the fluctuations in raw materials have been pronounced to a degree, this has not been nearly so true of wholesale and consumer prices. Wholesale prices have been stable for nearly a year and have declined less than 5% from the 1951 peak. Consumer prices, in fact, rose during most of 1951 when wholesale prices were sagging but in the last few months have commenced to act more in sympathy with the general downward trend. They are still, however, above the 1951 peaks.

The much greater resistance of wholesale and consumer (retail) prices to the downward trend of raw materials is due to the fact that the two former are more closely tied to the all-important factor of labor costs. As these have been rising, it follows that any potential decline in wholesale and retail prices would be held in check, as has actually been the case.

The question that most businessmen are asking is whether the abrupt decline which has taken place in raw materials will finally exert a gravitational effect on wholesale and retail prices. This is a matter of the greatest concern in view of the more or less predominantly high labor costs imbedded in the economy. Since direct and indirect labor costs account for about two thirds of the final price to the consumer, it is obvious there would not be too great a margin of profit if the retail level should fall, especially in consideration of the present high taxes and other charges.

Inventories and Prices

To a large extent, the answer as to wholesale and retail prices is tied to the inventory situation. It is not so much that inventories are now at a histori-

cally high figure of about $77 billion which is more or less in balance with current sales and incoming orders but rather that at this level they would be entirely excessive if orders are pared down as expected after the end of the Korean war. As a matter of fact, in anticipation, total volume of inventories is no longer rising, in response to the natural uncertainty of business interests who previously had been taking out insurance against the sudden eruption of a major war through building up of their stocks.

Since the price and inventory situations are closely tied together, it is well to consider that falling off in inventory accumulation would be caused by any contraction in new business. This, in turn, would have the effect of starting off a chain of liquidation, and thereby bring lower prices. This, of course, would depend on the general volume of business but it must be admitted that with the possibility of renewed inflation waning, manufacturers and distributors do not want to be caught with burdensome stocks at a time when the price outlook is in some doubt.

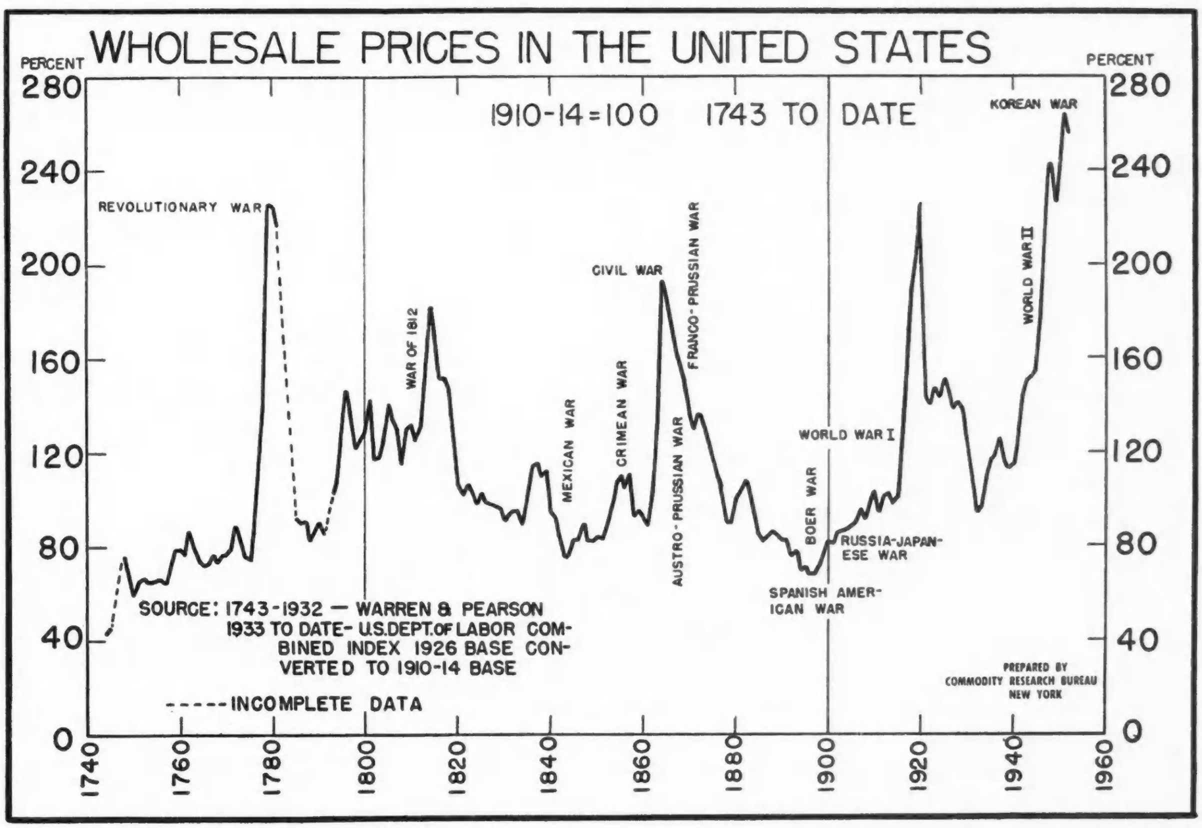
To some extent, the outcome will be determined by the financial status of individual concerns. Any sign that current tightness in the money market is likely to continue indefinitely would stimulate reduction of stocks on hand by companies unfavorably situated from the standpoint of liquidity.

Moreover, the outlook for prices will be influenced by the intangible of business psychology. The ending of actual shooting in Korea and the determined tactics of the Soviets to bring about a lull in the cold war, is slowly bringing about a different business climate from that of the past several years. There is consequently an increasing degree of uncertainty. Evidence in the past few months that supplies are ample, and in some cases excessive, tends to raise further doubts about the general price level.

Decline in Farm Prices

The slide in farm prices in this country has been of substantial proportions. This has not only affected the price of agricultural products but has injected uncertainty as to the price level of manufactured goods normally sold extensively in the farm areas. The situation is further complicated because of the failure of the farm price support program to work out as well as expected. With the government compelled soon to advocate reduction in 1954 crop planting, resistance by farmers to this move may develop. In that case, price supports would be much lower than at present and this could be reflected in the markets for most of these commodities as they have been showing a tendency to do of late.

With regard to world markets, there is some evidence of a distinct slow-down in the remarkable expansion of industry which took place abroad after World War II. In some cases, as in Britain, France and even Western Germany, there has been a recent leveling off of industrial activity. This has had the effect of reducing demand for raw materials. Powerful as the United States is economically, it still does not dominate entirely world markets and, in fact, is affected by them. Hence, the downturn in world production has an effect on our own domestic price level. Further the inclination of some countries in Western Europe to reduce the rate of armament expenditures is likely to be intensified as a result of our own projected cuts in foreign aid. (*Please turn to page* 417)



A HURDLE FOR SMALL BUSINESS BILL

By "VERITAS"

UNDERLYING current comment on extension of the trade agreements act is a furious mail bag effort to sway congress. That has happened on several past occasions. There is this essential difference: for a score of years, control of congress has been in the hands of free-trademinded lawmakers (there was a two-year interlude but the trade bill didn't come up then). Business is riding high today and has willing spokesmen under the Capitol dome. The President of the United States, however, is not convinced, believes international trade and foreign policy entwine.

> **WASHINGTON SEES:**
>
> It would be naive to suppose that major tax law revisions would get out of the House, let alone clear Congress, in the present session. The Senate must wait on tax levying policies until the house acts, and the Ways and Means Committee started on the chore June 16. Compiled is a list of 40 tax subjects to be considered. Hearings are to be conducted three days a week. More than 700 applications for the privilege to testify already are in the record; each mail brings more and the number, beyond doubt, will double the present total. That means a minimum of four months of hearings and, with Congress planning adjournment in time to permit its members to deliver their home-town Fourth of July speeches, tax policy will come under the head of unfinished business when the second half of this session convenes in January.
>
> What would happen if both the excess profits tax were repealed and individual federal income taxes were reduced, is an intriguing question in Washington, but the answer seems to be coming into focus: national sales tax. There is no present prospect of saving enough by personnel reduction, military budget cuts, foreign relief slashes, to bring government operations into the promised balance. If a general sales tax comes into being it will be at the manufacturing level, it is freely predicted. Administration and attendant costs would be easier to handle that way.

SMALL BUSINESS bill seems to have little chance of enactment at this session of congress. One of the troubles is determining what small business means. The bill (Sen. Thye's) fixes a yearly business of $100,000 as the yardstick, but there are many other elements to be compounded into the mix before a true economic product is developed. That figure might appear as the gross for a one-man corporation or for one employing 100 persons. The net could be poles apart. What of taxes and interest on operating debt? Congressmen will ask many such questions, drop it.

UNIFORMITY is lacking in industry on the Commerce Department's new NPA organization. It's planned to combine the old NPA and the Defense Materials system under one tent with 20 industry divisions. Industries would nominate their representatives to serve six-month tours of duty, always under the watchful eyes of government "experts." Already there is evidence that departmental squabbles will delay, if not defeat, the completion of a new setup. The overlapping of functions is extensive, the jealousies intensive.

ANALYSIS of the operations of the current congress presents some interesting statistics. Up to mid-June, the house and the senate had been in session 659 hours since the gavels on both sides of the Capitol banged. As must be expected when there is a political party turnover and new faces appear the legislative hopper overflows—campaign pledges being fulfilled, at least on the surface: 8,417 bills introduced, 45 public bills enacted, 15,000,000 words of discussion spread on the Congressional Record for somebody or other to read. Leaders are in agreement that congress must not adjourn until 9 (nine) bills have been considered.

As We Go To Press

President Eisenhower's speech to the Young Republicans obviously was tooled by the best mechanicians in the inner circle of the Administration in addition, of course, to the President himself. Plainly, and wisely, marked as a political document it was more a message to all the people than a political harangue. The President indicated that his big job, politically, is to sell his program and achievements to date to his own party rather than to the democrats.

Ike candidly gave himself the best of breaks. He claimed, with justification that budgets were being reduced although he did not suggest that there was no fat that yet could be rendered. There appeared to be more a note of hopefulness than of satisfaction with operation, fiscally, of the defense and foreign aid agencies. And there seemed to be an attitude of outright despair on the "peace front" in the mention that this nation is embarked upon a program of creating discontent among the people of the Soviet-dominated countries. That could hardly aid in advancing present and projected negotiations.

But the President could in all fairness point to very substantial reductions in federal payrolls fattened on years of job patronage. He "went to the Nation" in the FDR fashion to point out that a crossfire between the Executive Mansion and Capitol Hill could only work to the injury of the country. And in that connection he emphasized the necessity for "policies" to be carried out. As head of the Administration, "policies" necessarily mean his own program. He's not labeling anything "must" in the manner of his two immediate predecessors, cannot be accused of attempting to run two of the three branches of government. If there could be criticism of the speech in this particular it would be that he did not declare himself with the firmness his prerogatives permit, he seemed anxious, rather, to plead rather than to demand.

Scant attention seems to be paid in press and public comment to an important action taken by the senate's judiciary committee. It's a proposed constitutional amendment which would forbid any President from taking over private property except under conditions set out by congress. For example, President Truman would not have been permitted to seize the steel industry or the railroads if the bill had become law at that time. The Supreme Court ruled that the President was wrong -- too late, of course. But the court's decision did not go all the way and the McCarran bill would adopt the fundamentals, build a body of law upon them.

Constitutional amendments are slow in the making. Most of the proposals for writing new language in the basic law die of old age -- unless states indorse them within a prescribed period the subject is statutorily forgotten. The McCarran Amendment probably will come to such an end. Already it is being criticized as unnecessary; the Supreme Court decision, some claim, already declares what the law is and its statement in the Constitution would be repetition.

The senate's banking and currency committee has jumped the traces again on legislation to give the Federal Reserve Board blanket authority to impose real estate and consumer credit controls whenever FRB believes the need is indicated. Under the committee recommendation, the President could instruct the Board to re-impose controls for a 90-day period. The climate on Capitol Hill is against controls and in favor of permitting the economy to adjust itself. Which is not a prediction but merely food for thought.

Present indication is that congress will back President Eisenhower on his plan to take the cost of airmail subsidies out of the expenses recorded against the Post Office Department and make them a part of the operating costs of the Civil Aeronautics Board. It's more than a bookkeeping gesture. Postal rates are fixed on the basis of

operating costs (they now bring a return of $500 million less than operations require), but when they are weighted by items such as airmail subsidies, all gets out of focus. The airlines find the business profitable; which means that users of other classifications are paying the bill. Large mailers, firms which bill customers monthly or at other intervals, and parcel post shippers stand to gain by the prospective change which would isolate one of the main germs of the deficit.

Like Mark Twain's comment that everybody talks about the weather but nobody does anything about it, President Eisenhower has decided that something should be done about the nebulous thing called "foreign trade policy." Not just talk about it. So he's recommended that a bi-partisan commission be appointed to look into the foreign economic policy. It is a part of the bill which asks a one-year extension of the trade agreements act.

President Ike who already has created one new Cabinet post seems headed for another. He has asked congress for permission to set up a Foreign Operations Administration which would include the functions of the Mutual Security Agency, Mutual Defense Assistance Administration, Institute on Inter-American Affairs, and the Point 4 Program. It would be unfair to suggest that the President is motivated by this thought, but the fact is that Harold Stassen would be happy with the Cabinet position such a plan would provide.

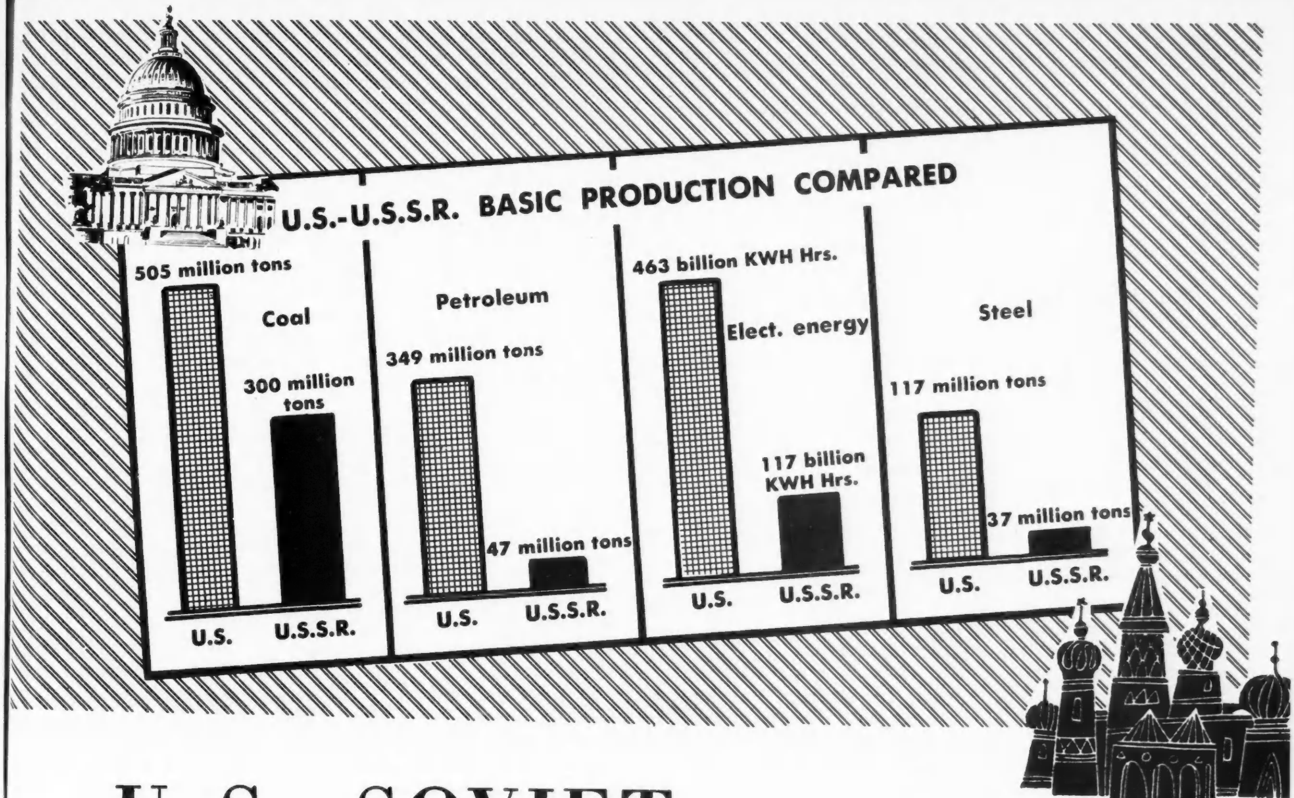
Senator Taft will temporarily lay aside the active lead in the republican cast of the upper house of congress, but he'll pull the wires just the same. Taft's illness has never been described in concrete terms. The nature of the treatments he is receiving -- cortisone and X-Ray therapy -- plus the fact that he requires the aid of crutches to get about, indicate an arthritic condition. That is extremely painful; extended floor speeches while standing would be unbearable. But his temporary successor, Senator William F. Knowland of California, is following the Taft congressional formula.

Like Taft, Knowland pleads the necessity of careful examination into pending bills before committees can report them out with reasonable expectation that they will be sympathetically handled. Of course, he commented, appropriations bills will be passed. He expects Hawaii will be given statehood; but failure to mention Alaska gave the impression that the territory will not become a star on the flag, in his opinion.

One of the results of Senator Taft's illness may be to bring the congressional session to an early close. The Speaker of the House, (Rep. Joseph W. Martin, Jr., of Massachusetts) is the statutory third man on the Presidential succession list, but he has been snowed under. Others have taken over. The Speaker will be in his early 70's when the next party convention takes place and while he's been a perennial "hopeful" the likelihood of his nomination is less than ever. He wants congress to adjourn before July 4. Senator Taft, before his illness wanted it to go on until a good record of accomplishment had been written, but he has dropped his insistence. Martin seems likely to gain his point.

Obvious in recent happenings on the military budget front is the irreparable disagreement between the professionals and the civilians. This breach was emphasized when General Hoyt Vandenburg went before a congressional committee and took direct issue with the Secretary of Defense, Charles E. Wilson, on air force needs. Vandenburg is to retire soon and can speak his mind -- an advantage not enjoyed by many defense department witnesses who take their orders from the "front office."

The issue which is inevitable in such situations is one of applying the test of whether the pocketbook can stand the strain of the most desirable outlays. Nobody questions the need of a strong air force; the difference comes on method. Wilson, whose productive skill is a matter of record, thinks the desired results can be accomplished at a much lowered cost. Vandenburg, a professional soldier, sees it through other lenses. He thinks the strategic needs should be met and that the taxpayer will pick up the tab, willingly. Of course the clash is not new. It's like the re-run of an old record.



U. S.—SOVIET Economic Positions

By PAUL WOHL

"A specter is haunting Europe" wrote Marx and Engels in the Communist Manifesto more than a hundred years ago, "the specter of communism." Little would the 19th century prognosticators have believed that the Atlantic world in the second part of the 20th century would be haunted by another specter—that of the Soviet Union's inexorably expanding economic potential. Actually this statistical and geopolitical specter has not anymore reality than communism as discerned by Marx and Engels. Both are at bottom ideological concepts, pretexts for crimes and abuses of all kinds which have in common that their inventors think of themselves as rational hard-boiled realists. Marx and Engels claimed to proceed exclusively by scholarly and scientific methods in the same way in which most contemporary analysts interpret the Soviet economic potential exclusively by "facts and figures."

The Russians at Work

This writer who has followed Russian economic history closely for the past thirty years and, prior to the war, had an opportunity of observing the Russians at work, never found a better formula for comparing the American and the Soviet economic potential than the one given by a very wise and old man, the American engineer William A. Wood, one of this country's outstanding brass and copper experts who served the Soviets as a consultant from 1930 to 1942. The late William A. Wood, a rock-ribbed Republican and an almost legendary figure in the Russia of the first three Five-Year-Plans was a highly paid industrial trouble shooter whom the Kremlin put in charge of important metallurgical projects from Kazakhstan to East Siberia and from the Baltic to the hinterland of the Black Sea.

Said Mr. Wood during the preparation of his book of personal reminiscences ("Our Ally—The People of Russia," Scribner's 1951): "If anyone by magic could transport the Russians as they are today, complete with Soviets and commissars, state planning commission, Lenin mummy and other communist paraphernalia to these United States, and at the same time transport the Americans with nothing but their know how and their Bill of Rights into the U.S.S.R., this is what would happen. Canada immediately would be taken over by Soviet, the Latins would demand that their part of the continent be detached from America and the standard of life in what is today the United States would drop below that of Europe. The Americans in the U.S.S.R. would be much better off than the Russians are today, but so much poorer than they were in the United States." The quintessence of this unpublicized meditation is that the two main factors which determine a nation's strength are, first, the spirit of the people, and second, geography. Compared with these two

basic factors, mere accumulation of industrial capacity means relatively little.

Pre-Revolution Industrial Gains

Statistics show that industrial progress in Russia before the revolution far outstripped the tempo of development in the United States. Yet no one in his senses was scared of Russia's economic potential. According to the Russian historian Pokrovsky production of pig iron between 1890 and 1899 increased in Russia by 196 per cent, as compared to an increase of 50 per cent in the United States. Russian bituminous coal mines during the same ten year period raised their output by 131 per cent as compared to a rise by 51 per cent in this country. The number of Russian spindles increased by 76.2 per cent as compared to 26.6 per cent in the United States. Between 1887 and 1900 the number of industrial workers in Russia increased by 73 per cent, as compared to 43 per cent in the United States. These were the years when statistics were supposed to be reliable.

If the tempo of prerevolutionary Russia's industrial expansion is projected into the future at the normal declining rate, Russian industrial capacity would be larger than it is today. What happened is that Russia as the result of two world wars and a revolution which claimed to inure the country against cyclical depressions, went through political convulsions which led to setbacks much more severe than the ones it would have suffered normally in the declining phase of a business cycle.

It is true that Soviet industrial production before the war increased much faster than in the United States. But when it came to stepping up steel production at the beginning of the war, America between 1938 and 1942 was able to raise its steel output from a depression low of 28,000,000 metric tons to 78,000,000 tons, far above the 57,000,000 ton high of 1929—an increase of 170 and 35 per cent respectively.

U.S.S.R. Present Steel Output

After the war, the Russians, compelled to work faster and under more frugal conditions than ever before, quickly rebuilt their battered and devastated steel industry and expanded it considerably. Today Soviet mills are believed to be turning out steel ingots at a rate of 35,000,000 metric tons a year—more than twice as much as prewar. By 1955, at the end of the current five-year-plan period, they expect to produce 45,000,000 tons, a 62 per cent increase since 1950. The satellites, if everything goes according to plan, should be adding another 15,000,000 tons. And the spiral supposedly will continue to rise. If the recently published second five-year-plan of Hungary is characteristic for what Moscow has in mind for the rest of eastern and southeastern Europe, the satellites by 1959/60 should be turning out roughly 24,000,000 tons of steel—about as much as Germany on the eve of the second world war. The target the Soviets have set themselves for this more distant date is 60,000,000 metric tons of steel. Together the steel production of the Soviet bloc, not including China, would then be more than 92,000,000 short tons which is slightly below the United States figure for 1952.

These figures—planned, not yet achieved—should be placed in perspective. America in the past two years has raised its steel capacity by nearly 10 per cent and it is today almost 23 per cent above the 1945 peak. Everyone knows that the percentage rate of increase usually is quite low once a high level of production has been reached and that, starting from zero or near zero, it is easy to achieve record percentage increases. In absolute figures American steel capacity between 1950 and 1952 increased by nearly 8,000,000 metric tons and by the end of this year it is to be more than 16,000,000 above 1950. This means that within three years America will have raised its steel capacity by nearly twice the tonnage scheduled as the U.S.S.R.'s planned production increase in the current five-year period. And the Soviets, in contrast to the United States, always work at top capacity without leeway.

Quantity vs. Quality

Then there is the question of quality. In this country it is taken for granted that statistics refer to steel ingots of standard quality. In the Soviet Union blast furnaces and mills are concerned first of all with quantitative plan fulfilment. In practice more than ten per cent of their output is defective.

Statistics are even more elusive with regard to coal. The Soviet target for 1955 is 377,500,000 tons and for 1960 it is as much as 500,000,000 tons which would be still below the United States war time peak of 617,500,000 tons. But American and Soviet figures are not comparable; the former refer only to bituminous coal; the latter include lignite and very low-quality bituminous coal of the type mined in Moscow province of only about one third of the ordinary caloric value. In terms of carolies the Soviet target for 1955 comes closer to 200,000,000 than to 300,000,000 tons of regular coal.

Using Trick Mirrors

Conditions are similar in satellite countries where statistical trick mirrors have not yet been placed as effectively as in the U.S.S.R. In Czechoslovakia last year's hard coal production was still below the war-time peak under the Germans. Poland too has made relatively little progress. Only one new shaft has been sunk since the war. Throughout the Soviet bloc workers are even more reluctant to go down into the pit than they are in the West.

Another show piece of Soviet statistics is the huge Volga water power system. But even when it will be completed, the Soviets still will be short of power, so great are the technological requirements of light metal industries and atomic projects. The combined output of the two giants at Kuibyshev and Stalingrad, which each are to produce 10 billion kilowatt hours a year in 1955 would be just sufficient for 1,000,000 tons of aluminum, roughly two thirds of the present United States-Canadian total. But the two Volga giants which are only emerging from the blueprint stage have to serve many other purposes. Not much power will be available for aluminum which the Soviets now are producing at a rate of about 300,000 tons a year. Capitalist countries expect to raise their aluminum output to 2,700,000 by 1955.

The Oil Production Target

Soviet oil production has progressed faster than expected. The target of 10,000,000 tons or more than 700,000,000 barrels set by Stalin for 1960—about

one third of the United States domestic output in 1951—probably will be reached as early as 1955. While very little fuel has to be set aside for automobiles which in the United States use up about one third of the domestic output, Soviet agriculture with its giant tractors consumes relatively more liquid fuel than do farms in the United States.

All production figures have to be weighed and qualified in the same way. Soviet steel production, for instance, in some respects represents a greater weight than the corresponding quantities in the United States because nearly two thirds of Soviet steel is used for military purposes or for new heavy industrial equipment, in other words, for the purpose of producing more steel. Only about 20 per cent of the total is said to be allotted for consumer goods and consumer goods industries. Soviets and satellites, on the other hand, need millions of tons of steel for new railroads in order to connect their unfavorably located production centers. Pipelines which today carry only a fraction of the oil moved in the U.S.S.R. also require large quantities of steel.

The greatest weakness of the Soviet bloc's industrial system probably is the lack of adjustment among the various branches of production. While steel and oil are progressing relatively fast, cement and various non-ferrous metals lag behind. Now millions of steel ingots are turned out every year, but black market premiums have to be paid for nails, wire and simple tools.

Labor Problems in U.S.S.R.

Labor is becoming increasingly short. In the villages more women, invalids and old men are at work than ablebodied farmers. Grain production per capita is lower than before the war. Already the U.S.S.R.'s foreign trade monopoly has had to stop grain deliveries promised to Britain. Production of lumber for export also is behind schedule. This limits prospects of large scale East-West trade.

High hopes are staked on a sharp increase of labor productivity, which is to increase at the fantastic rate of seven to eight per cent a year as compared to an average increase of between two and two and one-half per cent in this country. The Soviet way out of this dilemma is machines and more machines and the technique of the carrot and the stick. This, in turn, raises a question of morale of an order unknown outside the Soviet bloc.

It is here that the spectral, unreal, side of the whole system comes into appearance: its ideological and political foundation. Instead of the ups and downs of business cycles and price fluctuations which long-term state planning is supposed to avoid, political moods and conflicts such as Stalin's sudden distrust of a large part of his superior officers, officials and engineers can upset the whole edifice. The day after it was announced that Stalin had passed on, the Soviet Union's highest political bodies solemnly warned that they would not tolerate "disarray and panic." Although these words among communists may not have the same dramatic meaning as in the West, there are many indications that confusion and profound discouragement are rampant in the U.S.S.R. today. Everything depends upon the continuation of the present political course. One major shift in the party line and large projects may be abandoned from one day to another. Such shifts have taken place in the past at least every ten years. Once they are carried out, little remains of the economic potential expressed in plan figures, and long term development programs turn out to have been specters and myths. In this country and in western Europe, on the other hand, where production and trade are keyed to business calculations and economic needs, progress is slower and more diversified and the economic potential a reality, not subject to sudden political shifts.

This mutual adjustment of all facets of economic life and the strength derived from the organic growth are absent from the Soviet economy. Its greatest weakness is the lack of proportion, inner-harmony and mutual adjustments of the many branches of industry with their tens of thousands of ramifications, each line of production responding to a need, and the whole interdependent. Soviet industry has grown organically only in so far as it is grafted on the economic system which it inherited from Pre-revolutionary days—a vital and promising system it was—but the developments of the last three decades are of different origin. They were blueprinted by a few strong-willed politicians with an ideology. The engineer-executives of these politicians were under stringent orders. They had no leeway. It was to be so many tons of steel, oil and coal. As for the rest, it was nothing more than patch work and harrassed improvisation, always borrowing from Peter to give to Paul, and taking from Paul to give to Peter. From this it should be obvious that the Soviet economy is not a closely woven fabric and that it is vulnerable to political shocks of the kind which are now becoming discernible in the riots in Pilsen and the recent demonstration by the German people in East Berlin.

Such occurrences, reports of which could not be kept from the outside world, create the question as to whether there have not been similar outbreaks at other spots behind the Iron Curtain. There have been inklings of uprisings in the past that have been put down, no doubt, by communists tanks as was the most recent outburst in East Berlin. Rebellion against the iron heel of the Kremlin is apt to increase instead of diminish, further weakening the Soviet economic fabric.

Comparative Basic Productive Growth

	Coal		Steel		Oil		Electricity	
	1939	1952	1939	1952	1939	1952	1939	1952
	millions of metric tons						Billion KWH	
United States	47.9	84.0	402.0	458.4	170.9	314.4	161.3	405.9
U.S.S.R.	18.8	34.6	145.0[1]	303.0[1]	30.3	48.0	45.0	118.0
Satellites	5.2	8.5	89.8	102.8[2]	6.7	7.9	11.2	32.1

[1]—Includes lignite.

[2]—Does not include East Germany.

—Down to Earth Survey of the

Tidelands Oil Companies

By L. A. LUKENS

Any idea that might have existed that enactment of the "tidelands" bill into law would be the signal for the start of large-scale drilling operations on lands beneath the waters of the Pacific and the Gulf of Mexico has by this time been dissipated. There has been no stampede of drilling crews to sink well casings to tap the rich oil and gas deposits believed to lie beneath the submerged areas.

The big oil operating companies, as well as by comparison, the smaller operators, now holding leases on more or less sizable acreages of offshore oil lands (see accompanying table) are proceeding with caution. One reason for this attitude is that while the bill gives the coastal states title to offshore lands within their historic boundaries, it creates the question of where these boundaries between the states begin and end. Differences of opinion between Texas and Louisiana, for instance, as to the line of demarcation of their boundaries could readily lead to litigation that might drag on for years. Louisiana holds to the belief that its southwest line should be placed on the west bank of the Sabine River. Texas holds otherwise. The Lone Star state is of the opinion that the line is located in the middle of the river and that this line extends to the southeast. Louisiana contends that the line runs directly south.

Furthermore, the law decrees that the states have jurisdiction over the submerged lands 10½ statute miles out from the Texas and West Florida shores, and 3½ statute miles out, measured from the shores of Alabama, Mississippi and Louisiana. There's a good possibility that all these states will be joined in a lively dispute as to the extent of their boundaries seaward. The coast line twists and turns and is studded with islands. The question to be settled is from what point does the outward measurement begin. Ambiguity also beclouds the area coming under the jurisdiction of California. A stipulation entered into as a result of the case of the United States vs. the State of California in 1951, set forth the state had jurisdiction over the lands under its inland waters. The question of what constitutes inland waters, however, is a matter that is still to be decided by the U. S. Supreme Court. The U. S. Government contends that the point from which the three mile limit is to be measured under the provisions of the Submerged Land Act is the inner curve of the shoreline rather than from the mouth of any of the bays that California regards as inland waters. California further contends that its historic boundary measures from outside the islands lying off its shores, not from its shoreline. California's argument is that all of these islands, stretching from a point, starting from outside the Santa Barbara channel and extending southward to Laguna Beach below Los Angeles, a distance of 130 miles, are part of the counties and other political subdivisions of the state. Should it be upheld in its stand, the state's boundary would extend at one point as far as 55 miles seaward.

The Continental Shelf

In the case of California, this stand may not be of great importance. The continental shelf off the state's coast is narrow and it is believed that there is but a relatively small area of the shelf beyond the three-mile limit accessible to drilling operations because of the great depth of water. Consequently, the

area of the continental shelf off the coast of California is estimated at about 2,000 square miles. Because the structure of this shelf is similar to that found in the adjoining Ventura and Los Angeles basins, it is believed that it should have possibilities as great as these two basins both prolific oil-producing areas that for years have contributed a large percentage of the state's oil production.

In contrast to the shelf off the coast of California, that in the Gulf of Mexico, to a depth of 120 feet, is estimated to constitute an area of 77,000 square miles, that being exclusive of the area beginning at the 120-foot depth and extending out to the 650-foot depth, embracing approximately 100,000 square miles. Under present drilling methods, however, a large part of the latter area is inaccessible. Up to now, drilling has been in the comparatively shallow waters of the Gulf. All told, there are about 20 oil companies active in the coastal waters of the Gulf off the Louisiana shore. Interest in the area developed following wildcatting carried on in the early '30s in the marshes and bayous of the Mississippi delta region of Louisiana. Since then 26 oil and gas fields have been discovered off the Louisiana coast, although exploration work has been held to a minimum during the last four or five years following the decision of the U. S. Supreme Court in 1950, ruling that the Federal Government had paramount rights to the offshore lands of Texas and Louisiana, much along the same lines as the 1947 decision involving the offshore lands of California.

Some Administrative Confusion

It is important to note that the Court, in handing down its 1950 ruling, held that the Congress had power to transfer title to the states. The so-called "tidelands" bill to which President Eisenhower affixed his signature on May 22, last, has given the coastal states such title, thus removing any doubt as to the validity of offshore leases the states may grant to the oil companies. The present Attorney General, however, does not seem to be so sure about this validity. During the debate in Congress on the measure, he urged the Legislative bodies of the Government to withhold the granting of title to the states, allowing them instead, to have control of and revenues from the natural resources that might be developed in these lands. In adopting this stand, he expressed himself by saying that he did not intend to cast any doubt upon the constitutionality of a so-called quit-claim statute, but merely to draw attention to a method of minimizing, if not eliminating, a constitutional point raised by opponents of the bill.

It may be that the Attorney General, through the processes of a legal mind, was splitting hairs, especially in view of the 1950 decision of the Supreme Court which, of course, has been known to reverse itself. Agitation for the "tidelands" bill, however, gave birth to other complications in the form of a bill originating with the Senate Committee on Interior and Insular Affairs during the current month, setting up machinery for development, under Federal supervision, of natural resources of the Outer Continental Shelf, seaward of recognized offshore state boundaries. This measure, authorizes leases only for the production of oil, gas and sulphur to be issued by the Secretary of the Interior, with leases for oil and gas to be separate and apart from those pertaining to sulphur. The states would have no participation, although the bill would validate all leases beyond state boundaries issued in the past by the states. Bringing up this bill will undoubtedly have the effect of further complicating matters. A point to be settled is whether the states or the Federal Government should have control over oil production that may be developed on the outer shelf. Unless some provision is made in the bill now before the Senate, production from the outer area would be unrestricted. This would be in conflict with Texas and Louisiana conservation laws controlling output on their offshore lands (*Please turn to page* 413)

Oil Companies with Off-Shore Acreage

	Number of Acres of Tideland (Thousands)	Net Property a/c 1946 (Millions)	Net Property a/c 1952 (Millions)	Net Working Capital 1946 (Millions)	Net Working Capital 1952 (Millions)	Earnings Per Share 1946	Earnings Per Share 1952	Recent Price	1952 Div.	Div. Yield
Atlantic Refining	100	$205.5	$349.4	$ 43.2	$ 52.7	$ 1.30	$ 4.37	27	$ 1.90	7.0%
Cities Service	102	552.0	642.1	175.5	230.0	6.41	12.67	79	5.00	6.3
Continental Oil	117	109.4	218.3	30.9	61.2	2.02	3.91	53	2.50	4.7
Gulf Oil	18[2]	482.4	823.0	83.2	366.7	3.21	6.01	43	2.00[1]	4.6
Humble Oil	175	437.5	854.3	92.1	116.4	2.00	4.05	61	2.28	3.7
Ohio Oil	8[3]	81.0	169.1	42.5	62.9	2.78	6.00	50	3.00	6.0
Pan American Petroleum	31	79.0	149.6	34.9	46.2	1.57	4.44	45	1.75	3.8
Phillips Petroleum	129	235.2	675.9	44.4	105.2	2.30	5.17	53	2.40	4.5
Plymouth Oil	60	13.4	44.8	1.1	14.6	1.00	3.97	27	1.60[1]	5.8
Pure Oil	75	136.9	238.5	52.0	84.7	3.74	6.17	48	2.50	5.2
Richfield Oil	n.a.	49.3	127.3	36.3	65.1	1.76	6.41	53	3.50	6.6
Shell Oil	205	191.9	491.7	179.5	205.8	2.44	6.75	65	3.00	4.6
Socony-Vacuum Oil	112	577.6	980.5	266.0	463.0	1.87	4.89	32	2.00	6.2
Standard Oil of California	174	519.8	977.1	90.3	235.1	2.57	6.07	50	3.00	6.0
Standard Oil of Ohio	8	84.7	158.8	30.6	73.2	3.43	4.20	32	2.40	7.5
Standard Oil of Indiana	260	637.2	1,239.6	189.9	405.8	4.43	7.81	69	2.50[1]	3.6
Sun Oil	60	114.4	264.6	49.6	88.1	1.78	6.01	71	1.00[1]	1.4
Sunray Oil	23	78.2	226.6	8.9	36.2	.78	2.30	17	1.20	7.0
Superior Oil	87	8.6	87.1	18.4	17.0	4.36	28.13	515	2.00	.04
Texas Co.	118	414.6	957.0	231.0	464.1	3.16	6.59	51	3.00	5.8
Tide Water Associated Oil	101	140.1	191.2	50.7	85.0	1.49	2.43	21	1.15	5.5
Union Oil of California	18	166.8	305.4	45.2	73.0	1.90	5.07	37	2.00	5.4

n.a.—Not available.
1—Plus stock.
2—Does not include Florida off-shore acreage.
3—Does not include extra joint interest in Melben Oil Co.

A New Blue Chip?

Investment Audit of...

National Dairy Products

By PHILLIP DOBBS

For consistent year-to-year gains few industries can match the dairy business. Sales are influenced primarily by population trends and by personal income. Although profit margins are not always satisfactory, as a general rule earnings are adequate to provide a reasonable return on invested capital. Great stability characterizes this large-volume, small-margin business so closely identified with the nation's health. As the largest factor in the industry, National Dairy Products Corporation has experienced steady growth, especially in the last decade, and has substantially gained in investment stature.

In examining prospects for this company, it is well to consider some of the significant aspects of the business and appraise its potentialities. More than most food processors, dairy companies are closely regulated by government and state authorities and in many respects operate as public utilities. Profit margins in milk distribution, for example, are closely scrutinized and are held in close check. This arrangement has its compensations, however, for as a result of price regulations, small independent distributors are not permitted to gain undue cost advantages by which ruinous competition would be fostered. As a matter of fact, milk distribution—which is the least profitable of the major divisions of food processing—has proved more satisfactory under government regulation than previously.

Rapid Increase in Milk Consumption

Dairies have felt the favorable influence of educational campaigns aimed at encouraging the use of milk and cheese in the interest of health. Consumption of milk has increased phenomenally in recent years in reflecting the rapid rise in the birth rate as well as the tendency to encourage the use of milk for growing children. Consumption of cheese has climbed at an exceptionally high rate as a result of emphasis on this meat substitute in counteracting high prices of beef, lamb and other table favorites. The steady increase in the population of older persons also has spurred the use of cheese.

More important than anything else, however, in promoting the growth of dairy companies has been research in the development of diversified food products and attractive packages aimed at stimulating purchases in supermarkets. National Dairy and others in its industry have done a fine job in discovering and improving byproducts of milk and other food items as well as in promotional activities. As a consequence, dependence on fluid milk has become less and less important. Benefits of research have become evident only in recent years and hold promise of further raising the profitability of the fluid milk business. Moreover, the impact of the boom in the birth rate in the last few years may become increasingly important in the next few years, as the number of children reaching school age grows.

In addition to rising personal income and the development of popular new products, National Dairy has the benefit this year of plentiful supplies of its major raw material. Milk production appears headed for the highest level in years, and this development promises to help widen profit margins. Another round of wage increases, together with a high level of employment, seems destined to boost personal income to another all-time peak—and this factor logically should encourage consumption of dairy prod-

ucts. The remarkable effect on sales of National Dairy resulting from the rise in disposable income since the beginning of the war has been a prime factor in contributing to progress. Sales this year are expected to show an increase of almost four-fold over the $320 million of 1939.

Comparison of Earnings

Although net income has climbed to a high plateau in reflecting the dynamic upsurge in sales, heavy tax burdens have held down earnings applicable to common stocks. As may be noted in the accompanying tabulation of important statistics, earnings have tapered off moderately from the 1949 peak. The promising outlook for 1953 scarcely holds out hope of bettering the $5.27 a share of four years ago. In fact, if excess profits taxes remain in effect for the full twelve months, management probably would feel satisfied with a moderate increase in earnings over the 1952 showing of $4.23 a share. Actually, such a showing would be considered excellent on a historical comparison.

Operations of National Dairy are conducted on a nationwide basis, but because many products are marketed by divisions under trade names known in limited market areas, the company is not nearly so well known by its official title as are its products by their familiar labels—such as Sealtest milk and ice cream, Miracle Whip dressings, Kraft cheese products, Parkay margarine, Deerfoot meat products and others. Mention of these products affords an indication of the wide scope of products. Vegetable oil has become more important this year as a result of the acquisition last summer of the HumKo Co., of Memphis.

Although fluid milk remains the principal source of sales volume, accounting for about 30 per cent of volume, it is much less important than 15 or 20 years ago and is more profitable than a decade earlier. Cheese has climbed to the point where it accounts for almost a quarter of sales, but the expansion in miscellaneous products has been of greater importance than anything else. Foods other than milk, cheese, ice cream and butter contribute almost 25 per cent of sales and an above-average profit margin. Growth has been spurred, as mentioned earlier, by development of new methods of wrapping and packaging designed to boost sales in supermarkets where attractive appearance is essential.

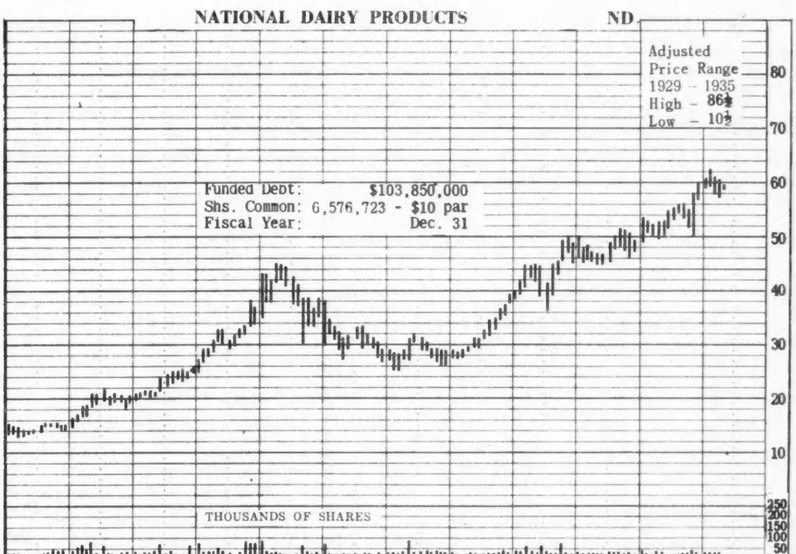
National Dairy has moved into first place with an enviable record of aggressive management. Progress in financial results may be noted in the accompanying data. Net profit for the last five years has averaged about $4.55 a share, against the prewar showing of slightly more than $1.75 a share. Dividend distributions have climbed without interruption from 80 cents a share in 1942 to the current rate of $3 annually. Millions of dollars have been ploughed back into plants and into product research to strengthen

Comparative Balance Sheet Items

ASSETS	December 31 1943	1952 (000 omitted)	Change
Cash & Marketable Secur.	$ 29,767	$ 39,528	+$ 9,761
Receivables, Net	23,289	50,534	+ 27,245
Inventories & Supplies	52,252	136,865	+ 84,613
TOTAL CURRENT ASSETS	105,308	226,927	+ 121,619
Net Property	92,188	174,528	+ 82,340
Investments	5,934	3,737	— 2,197
Other Assets	2,468	4,003	+ 1,535
TOTAL ASSETS	$205,898	$409,195	+$203,297
LIABILITIES			
Current Debt Payable	$ 1,500	$ 1,850	+$ 350
Accounts Pay. & Accruals	24,073	54,402	+ 30,329
Tax Reserve	2,725	927	— 1,798
TOTAL CURRENT LIABILITIES	28,298	57,179	+ 28,881
Reserves	16,654	12,829	— 3,825
Minority Interest	321	333	+ 012
Long Term Debt	58,800	103,850	+ 45,050
Common Stock	51,267	64,317	+ 13,050
Surplus	50,558	170,687	+ 120,129
TOTAL LIABILITIES	$205,898	$409,195	+$203,297
WORKING CAPITAL	$ 77,010	$169,748	+$ 92,938
CURRENT RATIO	3.7	4.0	+ .3

the company's competitive position and provide a sound basis for further earnings growth. Progress has been achieved in the face of rising costs which have handicapped most industrial concerns. Pre-tax margins actually have widened, as evidenced by the ratio of operating income to sales climbing to more than 8 per cent from a prewar average slightly less than this figure.

In appraising prospects for the company, it is important to note the ability to maintain earning power, for this suggests that bigness has proved no handicap. The explanation for this may be found in the fact that National Dairy is a combination of relatively small concerns operating locally in numer-



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1.95	2.09	2.12	2.25	4.05	3.68	4.03	5.26	5.15	4.07	4.22	EARN.
.80	1.00	1.10	1.40	1.65	1.80	1.80	2.20	2.80	2.90	3.00	DIV.
66.1	77.0	83.9	90.4	97.9	90.2	116.0	124.0	123.1	148.6	169.7	Wkg Cap $ Mil

ous instances. Hence, close controls can be maintained and promotional activities can be carefully guided. Milk and cream is distributed chiefly in the East, the Middle West and the South. Two of the three most difficult metropolitan marketing areas are avoided. Ice cream is manufactured and distributed by several locally prominent concerns east of the Mississippi River. Cheese, salad dressings, margarine and most other food products are distributed nationally.

Expenditures on Plant

In line with top management's expansion program designed to gain a larger share of the rapidly growing market, National Dairy is considering construction of two new large plants, of which one probably will be in Canada. Expenditures this year may approximate $22 million, bringing the total spent on capital improvements since World War II to about $225 million. New plants include three for making ice cream in Pittsburgh, Omaha and Milwaukee. A milk plant has been added in Philadelphia and other units have been put into service in North Carolina. A new vegetable oil refinery was opened last year in Chicago, while cheese plants have been located in New York State, in New Jersey and in the South.

Sales gains have been achieved in no small measure as a result of development of modern packaging materials. New cartons have been devised with the use of artistic designs and color printing so that product and brand names may be readily identified by supermarket customers. Packaging materials have been utilized to assure freshness and consumer acceptance. Packaging of individual servings of many food products for institutions is being pioneered on the theory that distribution can be enlarged through easing the accounting and feeding problems of hospitals, cafeterias, restaurants and hotels, where some 65 million meals are served daily.

In view of the fact that many industries face the prospect of making adjustments to a slower tempo in armament production, it is reassuring to observe that the stability factor characterizing operations of National Dairy (and the dairy industry generally) appears to offer considerable protection against unforeseen developments. Despite the fact that consumption of dairy products has steadily increased, supplies have been plentiful and the industry has not found it necessary to expand productive facilities to meet temporary shortages. Hence, although additional plants have been constructed, it generally is admitted that capacity is not excessive. Accordingly, the threat of a decline in personal income poses no problem for the dairy companies.

Moreover, because prices generally have been controlled either by government regulations or by the industry's conservative managements, there appears to be no need for a downward readjustment in prices which might impair profit margins. Fortunately, therefore, National Dairy and its competitors see no need for concern over the possibility of a business recession that might curtail demand. With the expansion of the major factors in the industry, competition from small independents has become less effective than in the 1930's. As a result, adjustments to a peacetime economy—if there can be such a thing—seem unlikely to raise important problems.

Possible Changes in Regulations

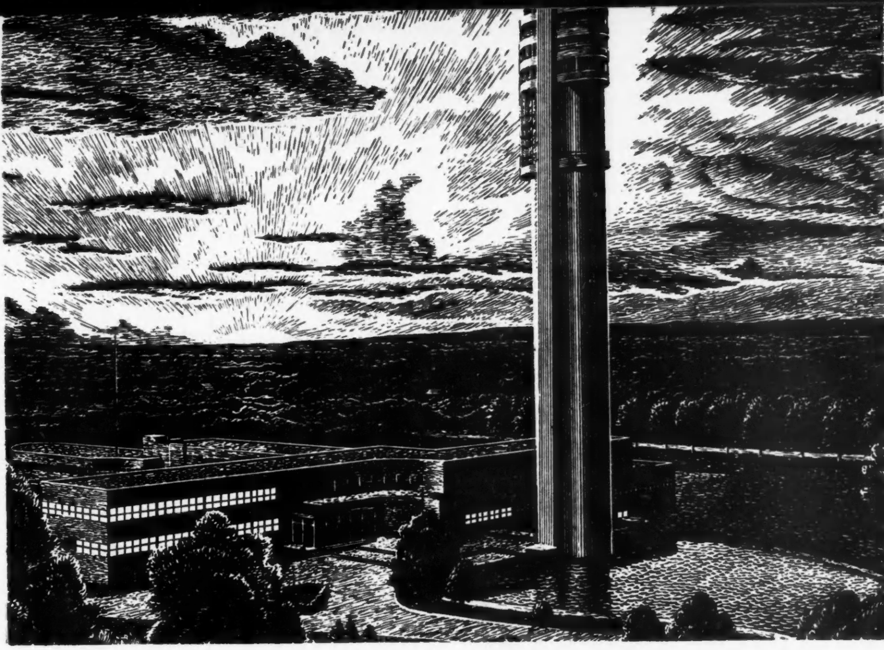
Economic and political adjustments are in prospect, however, but these may not be all unfavorable. Some changes may take place in regulations governing production and distribution of dairy products, particularly butter, which has been losing ground steadily to margarine now that legislative handicaps on coloring the vegetable spread have been removed in large marketing areas. Steps may be taken to lower the government price support on butter which has maintained retail prices at a level far above quotations on margarine. Although a downward revision might curtail demand for substitute spreads, dairy processors would be pleased to see prices lowered on butter on the theory that increased sales would result—to the benefit not only of the processors but also of dairy farmers.

In evaluating prospects for dairy processors, allowance must be made for the fundamental change that has taken place in distribution of fluid milk tending to remove many hazards which undermined profits a generation ago. There has been no agitation for modification of the federal law implementing state regulation of milk marketing. Chaotic conditions that had led to periodic strikes by dairy farmers, marked by dumping of milk and other troubles, now have been corrected through the regulation which requires compila- (*Please turn to page* 409)

Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range High Low
1953 (1st Quarter)	$299.4	$16.8[1]	5.6%[2]	$10.0	$ 6.7	2.2%	$1.03	$1.50[3]	......	[4]62½-56⅞
1952	1,141.2	70.8	6.2	43.3	27.8	2.4	4.23	3.00	11.8%	60 -48¾
1951	1,038.4	66.7	6.4	39.1	26.0	2.5	4.16	2.90	12.1	51¾-44½
1950	906.6	64.8	7.1	30.6	32.6	3.6	5.15	2.80	15.9	50 -36
1949	897.6	58.4	6.5	22.1	33.2	3.7	5.27	2.20	17.5	39⅝-27⅛
1948	986.4	41.2	4.1	16.2	25.3	2.5	4.04	1.80	16.4	32 -24⅜
1947	897.3	38.4	4.2	15.0	23.1	2.5	3.68	1.80	16.5	38 -26⅝
1946	742.4	51.4	6.9	20.5	25.4	3.4	4.05	1.65	19.8	45¼-30
1945	632.7	48.2	7.6	28.4	14.1	2.2	2.25	1.40	12.5	38 -24½
1944	593.8	52.8	8.9	35.9	13.3	2.2	2.12	1.10	12.2	25¾-19⅛
1943	580.1	48.0	8.2	31.4	13.0	2.2	2.08	1.00	12.8	21⅞-14⅝
10 Year Average 1943-1952	$841.6	$54.0	6.6%	$28.2	$23.3	2.7%	$3.70	$1.96	14.7%	60 -14⅝

1—Pre-tax income.
2—Pre-tax margin.
3—To June 10, 1953.
4—To June 2, 1953.



A Radical Change in the

I. T. & T. Set-Up

By RICHARD COLSTON

Shareowners of International Telephone & Telegraph Corp., at a meeting scheduled for the 10th of next month, will vote on merging five of the principal domestic manufacturing subsidiaries into the parent company. Under the present set-up, I. T. & T. is operating with a somewhat top-heavy corporate structure. Each of these subsidiaries is operating as a separate entity, having its own officers and board of directors although all the stock is owned by the corporation.

Putting the plan into operation should result in the simplification of I. T. & T.'s capital and corporate structure, and eliminate a substantial amount of operating expense, thus increasing efficiency.

The plan involves no change either in the shares of the parent company or modification of shareowners' rights and privileges. It will give the parent company a new and stronger status. As things now stand, the direct activities of the corporation are confined principally to acting as a holding, management and service organization for its subsidiaries, an incongruous state of affairs which the merger plan proposes to correct by eliminating these subsidiaries as such and making them operating divisions. Under the proposed revised status, each will retain its present identity, but the added advantage will be that the parent company, through an amended charter, will have powers substantially as broad as those now possessed by the subsidiaries. Under the proposed plan of merger, the parent company will own the subsidiaries properties directly and will be able to incorporate in its own income statement and balance sheet a more complete statement of earnings and financial condition, providing a truer picture of earning power and finances than is now possible.

Growth in Domestic Manufacturing

By bringing these subsidiaries into the parent company as operating divisions I. T. & T. will, unquestionably, be better able to delineate its position in domestic manufacturing in which it has achieved outstanding growth in recent years. Illustrating this growth, sales of its manufacturing subsidiaries in the U. S., have increased from 33.81% of total sales in 1950, to 44.62% of total sales in 1952, a particularly significant growth considering I. T. & T.'s factories overseas also continued to record a substantial gain in sales.

Since 1947, the first year in which the accounts of certain European and other subsidiaries were included, net sales of the corporation on a consolidated basis have increased from $131 million to a record high of $352 million, the latter representing a gain of $97 million over 1951 sales. These figures are exclusive of net sales to affiliates, nor do they include dividends, interest and other income. Neither does it include telephone and radiotelephone operating revenues, amounting to $36.6 million in 1952, having steadily increased in each year from $24.2 million in 1947. Adding these items to 1952 sales and revenues brings total gross income for that year to $397.5 million, a gain of 129 per cent over 1947 total income of (*Please turn to page* 412)

I. T. & T. Earnings 1946-1952

	Earnings per Share Consol. Basis	Earnings per Share Parent Co. Only	Dividend	Price Range
1946	$d1.57	$ 0.70	......	31⅞-14¾
1947	0.03	0.21	......	17¾- 9½
1948	1.07	0.34	......	16½- 8¾
1949	0.72	0.28	......	1[illegible]⅛- 7½
1950	2.27	0.60	$ 0.15[1]	16 - 9¼
1951	2.60	0.89	0.65	19⅛-13⅛
1952	3.09	1.15	0.85	18⅝-15
1953 1st Qu.	0.67	0.26	0.25[2]	20¼-16¾

Recent price—17 Current yield—about 6%

d—Deficit.
1—Plus 5% in stock.
2—Initial 1953 quarterly payment.

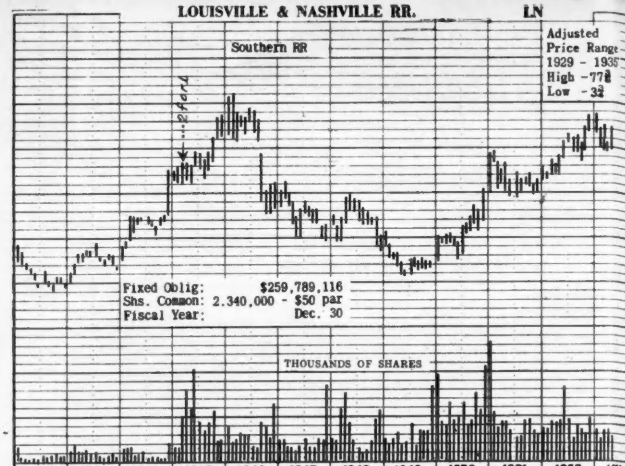
5 Diversified Stocks with Strong Investment Appeal

By OUR STAFF

The negative action of the stock market in the past few weeks has brought in its train a good deal of portfolio revamping. Experienced investors show a tendency to dispose of the weaker issues, those with earning power not too well-established, at the same time retaining issues of proved solidity both as regards earnings and financial position. During this process, the opportunity is afforded of up-grading the portfolio, substituting for the weaker issues those of superior quality, particularly from the viewpoint of ability to continue dividends in an uncertain period.

In assisting investors to strengthen their security lists, we have selected five stocks of better-than-average quality as determined not only by their past record but by their prospects in the period ahead. These issues are well-diversified and are especially desirable as a "package investment." That is to say, they could be bought as a group. Based on recent prices, the average yield for the five stocks would be about 6.5% which is attractive for issues of this calibre. While not of the highest rating as investments, they nevertheless are sound issues with long dividend records. With the exception of West Penn Electric, which inaugurated dividends in 1948, as an offshoot of the predecessor American Water Works, these stocks have paid dividends without interruption and in varying amounts from as far back as 1914, in the case of Union Tank Car, to 1928 in the case of United Biscuit.

We suggest for investors considering the purchase of the group as a "package investment" that in view of uncertain market conditions it would be more practical to purchase one stock at a time over the next several months. In that way, a more satisfactory average for the group might be obtained. For those interested in only one or two of these stocks, it is suggested that the timing of purchase be coordinated with the general market recommendation of Mr. A. T. Miller.



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
8.28	9.07	7.95	7.49	4.95	5.68	7.91	3.51	10.39	9.74	10.72	
3.50	3.50	3.50	3.51½	3.52	3.52	3.52	3.52	3.52	4.00	4.50	
36.0	40.7	43.8	48.4	42.5	42.5	70.7	43.6	51.1	38.6	35.3	Wkg Op

LOUISVILLE & NASHVILLE RAILROAD CO.

AREA SERVED: This road operates 4,765 miles in the rapidly growing midd.e South Region, extending from the Gulf at New Orleans to Cincinnati Ohio and serving, through extension, the important centres of Memphis and St. Louis. Through connections at Louisville and other points, a large volume of manufactures moving between the South and West is interchanged. The close relation between this road and Atlantic Coast Line is indicated by the latter's ownership of 35% of L. & N.'s stock.

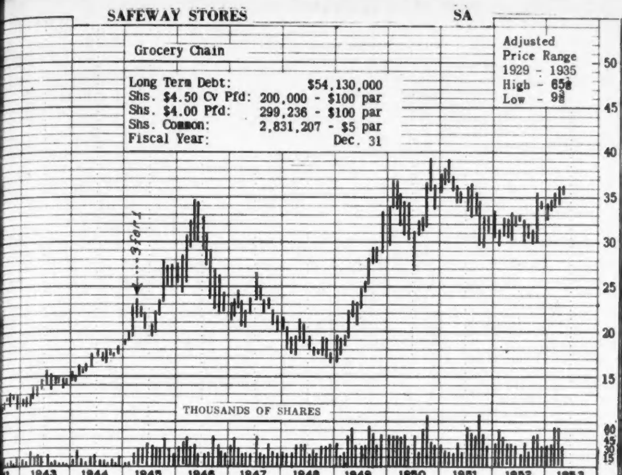
OUTLOOK: This 103-year old railroad attained the highest earnings in its history last year with a net income of $25 million, equivalent to $10.73 a share on its 2,340,000 shares of capital stock. The higher income was produced despite a slightly lower traffic volume. This result was obtained through operating economies, principally from dieselization which is highly advanced. Since 1946, approximately $214 million have been expended for improvements, which include in addition to new diesel locomotives, installation of new power, modern freight cars and improved roadway and signal apparatus. In 1952 alone, some $57 million were spent for these and other facilities, and it is estimated that for the current year some $30 million will be added. Bituminous coal, which is the principal source of traffic, constitutes approximately 27% of traffic, with other mine products, another 34%. The road's increasing diversification into freight originating from manufacturing and miscellaneous industries is indicated by the fact that it now constitutes approximately 45% of total freight revenues compared with 33% a decade ago. This illustrates the steadily growing industrialization of the Southern centers through which the road passes. First half 1953 earnings probably will have equalled or exceeded earnings for the same period last year. It is possible, however, in view of the expected downturn in business, that the final year's return may show a moderate decline. However, earnings should in any case amount to close to twice dividend requirements.

DIVIDENDS: Payments have been made without interruption, at various rates, since 1934. The current quarterly rate is $1 and in 1952, $4.50 per share was paid.

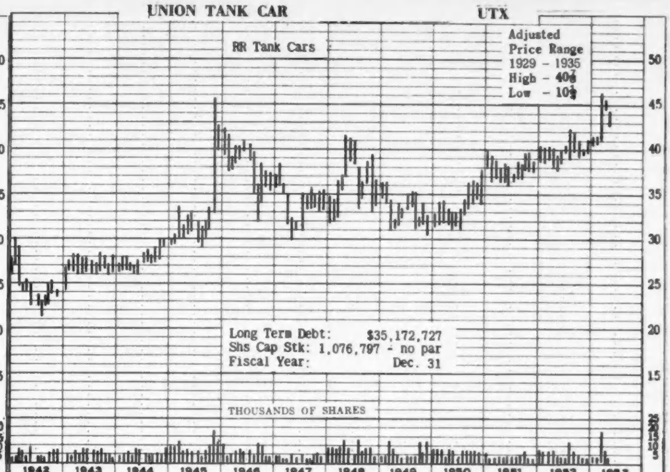
MARKET ACTION: Recent price of 60½, compares with a 1952-53 price range of High—67⅞, Low—52¼. On the basis of last year's payments, the yield is 7.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash & Cash Items	$ 74,986	$ 29,879	—$ 45,107
Receivables, Net	34,536	24,136	— 10,400
Materials & Supplies	11,319	18,009	+ 6,690
Other Assets	1,175	1,342	+ 167
TOTAL CURRENT ASSETS	122,016	73,366	— 48,650
Road and Equipment	477,005	634,394	+ 157,389
Donation & Grants	(cr) 1,870	(cr) 4,599	+ 2,729
Accrued Deprec. & Amort.	(cr)113,165	(cr)168,990	+ 55,825
Investments and Funds	25,528	64,544	+ 39,016
Other Assets	8,985	5,298	— 3,687
TOTAL ASSETS	$518,499	$604,013	+$ 85,514
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 81,278	$ 37,971	—$ 41,307
Other Liabilities	3,446	2,961	— 485
Accrued Deprec.—Lsd. Prop		643	+ 643
Other Unadjusted Credits	7,324	6,217	— 1,107
Long Term Debt	206,537	259,696	+ 53,159
Capital Stock	117,000	117,000	
Surplus	102,914	179,525	+ 76,611
TOTAL LIABILITIES	$518,499	$604,013	+$ 85,514
WORKING CAPITAL	$ 40,738	$ 35,395	—$ 5,343
CURRENT RATIO	1.5	1.9	+ .4



1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
1.56	1.63	1.59	4.09	2.76	3.50	5.22	4.80	2.26	2.01	EARN.
1.00	1.00	1.00	1.00	1.00	1.00	1.25	2.40	2.40	2.40	DIV.
52.9	55.4	57.8	73.0	57.9	63.9	66.8	68.3	58.0	81.9	Wkg Cap $ Mil



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
2.51	2.85	2.18	2.31	3.30	4.23	3.77	3.31	3.90	3.62	4.06	EARN.
1.90	2.25	2.00	2.00	2.00	2.50	2.60	2.60	2.60	2,60	2.60	DIV.
9.9	11.7	14.0	18.7	17.5	11.2	4.4	3.3	2.2	6.0	4.2	Wkg Cap $ Mil

SAFEWAY STORES, INC.

BUSINESS: Operating the country's second largest grocery chain, including those in Canada, the company at the end of 1952 had 2,092 stores, of which 409 were modern super-markets. Operations are mainly west of the Mississippi, but are expanding in the important New York City and Washington areas, particularly with respect to the new type super-markets.

OUTLOOK: The Company is fortunate in possessing an extremely alert and progressive management. This is indicated not only by the re-equipping and modernization of some 365 older stores but by the inauguration of self-service on a large scale. Where operations are unprofitable, the management has not hesitated to close down the individual store units involved. During the period of price control, after the Korean war started, the company was greatly handicapped by inability to adjust prices to rising costs. Thus, earnings in 1951 dropped to $2.26 a share from $4.84 a share the previous year. In 1952, the downtrend continued with earnings at $2.01 a share. With controls lifted after the new Administration came into power, the situation has radically altered. In the first 20 weeks of the current year, which includes a few weeks of control, earnings advanced to $1.53 a share compared with 74 cents a share in the corresponding period last year. The company has recently estimated the full year 1953 earnings will be about $3.35 a share, indicating a return to its normal earning power. Safeway has invested about $285 million in new buildings and facilities since the end of World War II. About $115 million of this sum was paid through retained earnings, the balance through the well-established and profitable method leasing to real estate investors new buildings that have been constructed by the company. Working capital requirements, always severe in this type of business, have been met satisfactorily, the sale of $20 million in convertible 4½% preferred stock last year facilitating an improvement in the current position. Bank loans have been reduced from $86 million to $54 million.

DIVIDENDS: Payments are at the rate of $2.40 a share on the common. Dividends at varying rates have been paid without interruption since 1927.

MARKET ACTION: Recent price of 35, compared with a 1952-53 of High—36¼, Low—29¾. At current price of 35, the yield is just under 7%, which is attractive for a stock of this calibre.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Secur.	$ 12,789	$ 58,631	+$ 45,842
Receivables, Net	2,590	6,833	+ 4,243
Prop. for Sale		23,714	+ 23,714
Inventories	63,488	135,763	+ 72,275
TOTAL CURRENT ASSETS	78,867	224,941	+ 146,074
Net Property	24,010	105,049	+ 81,039
Investments	247	955	+ 708
Other Assets	1,655	7,403	+ 5,748
TOTAL ASSETS	$104,779	$338,348	+$233,569
LIABILITIES			
Debt—Current	$ 8,450	$ 54,680	+$ 46,230
Accounts Payable	10,850	70,002	+ 59,152
Accruals	4,016	9,606	+ 5,590
Tax Reserve	2,560	8,660	+ 6,100
TOTAL CURRENT LIABILITIES	25,876	142,948	+ 117,072
Long Term Debt	17,450	56,760	+ 39,310
Preferred Stock	21,368	49,737	+ 28,369
Preferred Stock—Subsid.		6,367	+ 6,367
Common Stock	9,943	14,214	+ 4,271
Surplus	30,142	68,322	+ 38,180
TOTAL LIABILITIES	$104,779	$338,348	+$233,569
WORKING CAPITAL	$ 52,991	$ 81,993	+$ 29,002
CURRENT RATIO	3.0	1.5	— 1.5

UNION TANK CAR COMPANY

BUSINESS: One of the two principal companies engaged in leasing railway tank cars for transportation of refined petroleum products, including other bulk liquid products. Company owns 4,500 steel tank cars and is building 800 cars for transportation of liquefied petroleum gas. Has exclusive contracts with nearly all the Standard Oil companies and other important oil concerns to supply them with their entire tank car requirements.

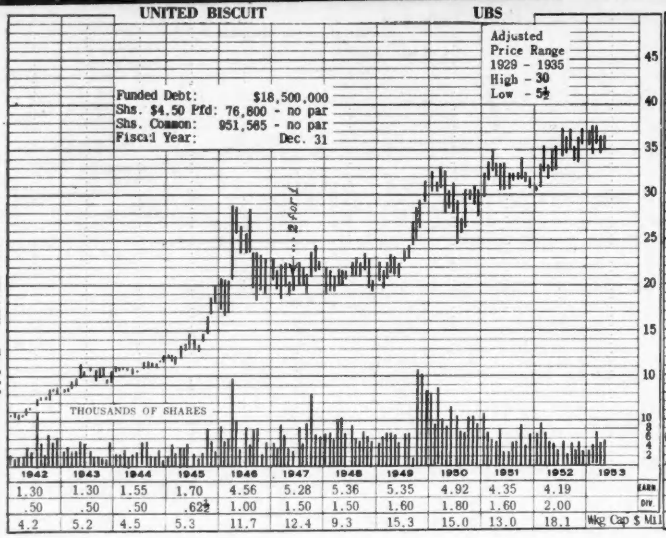
OUTLOOK: Despite interruptions to operations caused by the strikes in the steel and petroleum industries last year, earnings were reported at $5.52 a share, compared with $4.48 a share in 1951 and $3.90 a share in 1950. This increase was accounted for principally by (1) new additions to fleet of tank cars for transportation of liquefied petroleum gas, a growing source of revenue and (2) revised charges for use of equipment, put into effect July 1, 1952 to compensate for higher costs of labor and materials. In conformity with the company's conservative accounting policies, reserves were set aside for possible future tax liability, reducing stated earnings of $5.52 a share to $4.06 a share. In the year previous, the same adjustment accounted for a reduction in stated earnings from $4.48 a share to $3.62 a share. Without hazarding an opinion as to the final disposition of these taxes, it would seem that a reasonable amount will be retrieved, thus placing actual earnings closer to the higher earnings reported to stockholders. In any case, the company managed especially well in view of extra-heavy depreciation charges which together with higher material cost and wages amounted to $1.7 million above the same items for 1951. Bank borrowings normally used for financing output of new cars in the company's shops were held to $10 million, as a result of cash available from operations and conversion of inventory into finished cars. Bearing in mind the interruptions to operations caused by last year's strikes, it would seem that the outlook for profitable operations for 1953 is as good or better than a year ago.

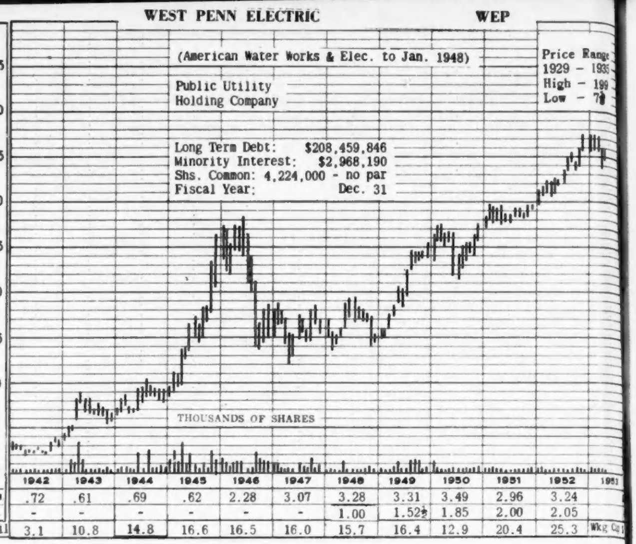
DIVIDENDS: The annual rate of payments is $2.60 a share and has been continued without interruption in varying amounts from 1914 to-date.

MARKET ACTION: Recent price of 43, compares with a 1952-53 price range of High—46¼, Low—37⅞. At the current price, the yield is 6.0%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Secur.	$ 8,537	$ 4,739	—$ 3,798
Receivables, Net	4,416	5,036	+ 620
Materials & Supplies	1,091	3,704	+ 2,613
TOTAL CURRENT ASSETS	14,044	13,479	— 565
Net Property	22,705	78,979	+ 56,274
Investments	1,362	1,362	
Other Assets	2,830	345	— 2,485
TOTAL ASSETS	$ 40,941	$ 94,165	+$ 53,224
LIABILITIES			
Bank Loans Payable		$ 4,178	+$ 4,178
Accounts Payable	$ 1,041	1,857	+ 816
Tax Reserve	1,299	3,229	+ 1,930
TOTAL CURRENT LIABILITIES	2,340	9,264	+ 6,924
Reserves	3,385	3,173	— 212
Bank Loans		36,000	+ 36,000
Common Stock	30,000	30,000	
Surplus	5,216	15,728	+ 10,512
TOTAL LIABILITIES	$ 40,941	$ 94,165	+$ 53,224
WORKING CAPITAL	$ 11,704	$ 4,215	—$ 7,489
CURRENT RATIO	6.1	1.4	— 4.7





UNITED BISCUIT CO. OF AMERICA

BUSINESS: This is the third largest baker of biscuits, crackers, etc., with 14 plants and 112 warehouses. Practically all its products are sold to the retail trade, serving most of the trading areas of the United States. Company, in the main, operates through divisions under their local identities, as existing prior to acquisition by the parent company. Company supplies its own container requirements.

OUTLOOK: Since the end of World War II, sales have almost doubled; in 1952 they amounted to $110 million, compared with $60 million in 1946. Gross profit has kept pace, standing at $38 million in 1952, compared with $21 million in 1946. With annual depreciation charges increasing, during this period, by about $1.3 million and income taxes by about $1.7 million, the company has nevertheless maintained stability in earnings after all charges, although in 1951 and 1952 when price controls were in effect, net earnings on the common fell back moderately, or from $4.92 a share in 1950 to $4.19 a share in 1952. Since the ending of controls, the way has been opened for higher prices. At present, however, the company apparently does not anticipate an increase in prices of its products, despite the higher labor costs. The company has been able to offset to some extent the higher operating costs through introducing some more profitable higher-priced lines, at the same time eliminating some lower-priced products. Furthermore, some operating economies are afforded through consolidating some of the smaller plants into more modern and larger units. Last year, the company sold $10 million in 3⅜ debentures for the purpose of repaying short-term debt and for general working capital purposes. The company has pursued a conservative dividend policy, delaying the increase in dividends from the previous $1.60 a share paid in 1949-51 to $2 a share in 1952. This is the present rate. It is expected that earnings for 1953 will moderately exceed those of 1952 when $4.19 a share was earned. This would normally permit another increase in the dividend rate but the company's long-range development plans are extensive and may tend to postpone any further increases for the time being.

DIVIDENDS: The current rate is $2 a share and dividends have been paid without interruption from 1928.

MARKET ACTION: Recent price of 35⅞ compares with a 1952-53 price range of High—37⅝, Low—30¼. At the current price, the yield is 5.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 4,341	$ 12,922	+$ 8,581
Receivables, Net	1,512	3,088	+ 1,576
Inventories	4,313	10,365	+ 6,052
Other Current Assets		491	+ 491
TOTAL CURRENT ASSETS	10,166	26,866	+ 16,700
Net Property	8,978	37,768	+ 28,790
Intangibles	8,802	.....	— 8,802
Other Assets	803	416	— 387
TOTAL ASSETS	$ 28,749	$ 65,050	+$ 36,301
LIABILITIES			
Accounts Payable	$ 667	$ 1,863	+$ 1,196
Accruals	694	2,244	+ 1,550
Tax Reserve	3,591	4,633	+ 1,042
TOTAL CURRENT LIABILITIES	4,952	8,740	+ 3,788
Reserves	302		— 302
Long Term Debt	5,950	18,000	+ 12,050
Preferred Stock	2,500	7,680	+ 5,180
Common Stock	7,899	7,899	
Surplus	7,146	22,731	+ 15,585
TOTAL LIABILITIES	$ 28,749	$ 65,050	+$ 36,301
WORKING CAPITAL	$ 5,214	$ 18,126	+$ 12,912
CURRENT RATIO	2.0	3.1	+ 1.1

THE WEST PENN ELECTRIC COMPANY

BUSINESS: Through subsidiaries, West Penn Electric operates a fully interconnected group of electric properties, constituting a single integrated public utility system serving areas in Maryland, Pennsylvania and West Virginia and small adjacent sections of Ohio and Virginia.

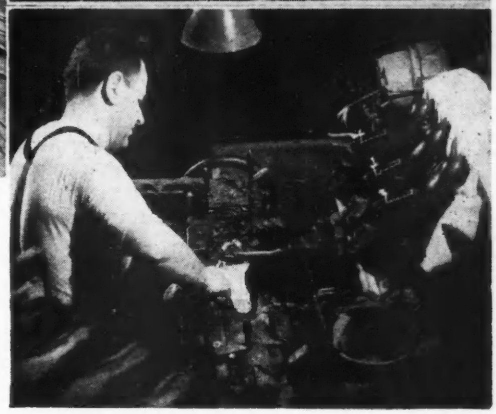
OUTLOOK: The areas served embrace approximately 29,127 square miles, having about 2.5 million population and widely diversified industrial activities including important segments of the chemical, iron and steel, glass, milling and foods industries, as also large captive and commercial coal mining operations. Total electric revenue of the System in 1952 went above the $100 million mark, continuing the steady climb that has been going on for the last 14 years. Within the past decade, these revenues have more than doubled, reflecting the industrial growth of the areas served and the accompanying expansion in residential consumption, the latter accounting for 36.7% of 1952 electric revenue, as compared with 34.1% in 1950 and 31.8% in 1945. Steadily rising demand upon the System has necessitated continued increase in generating facilities and other equipment. Within the four years since 1949, gross electric property additons totaled $143.7 million, of which $43.7 million was added in 1952 to be followed with about $46 million scheduled for the current year. Part of the financing of this expansion has been accomplished through issuance of additional common stock including 440,000 shares in 1952 and bringing the total outstanding to 3,960,000 shares on which net income was equal to $3.24 a share, as compared with $2.96 a share on 3,520,000 shares outstanding at the end of 1951. In February, of this year, an additional 264,000 shares were offered to stockholders at the rate of one new share for each 15 held, at $34 a share. Giving effect to this recent issuance the consolidated capitalization of the System as of the close of 1952 shows combined common stock and surplus equal to 25.6% of total capitalization, compared with 16.4% three years earlier.

DIVIDENDS: Quarterly payments of 55 cents a share are being made, having been increased from 50 cents a share in the final 1952 quarter.

MARKET ACTION: Recent price of 34½, compares with a 1952-53 price range of High—37¾, Low—29½. At current price the yield is 6.3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 23,799	$ 36,021	+$ 12,222
Receivables, Net	3,537	9,512	+ 5,975
Materials & Supplies	2,242	12,934	+ 10,692
Other Current Assets	420	2,500	+ 2,080
TOTAL CURRENT ASSETS	29,998	60,967	+ 30,969
Property and Plants	268,814	428,078	+ 159,264
Investments		4,157	+ 4,157
Other Assets	10,698	5,467	— 5,231
TOTAL ASSETS	$309,510	$498,669	+$189,159
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 19,153	$ 35,582	+$ 16,429
Other Liabilities	6,188	7,789	+ 1,601
Reserve for Depreciation	42,197	87,902	+ 45,705
Other Reserves	2,850	3,511	+ 661
Long Term Debt	5,000	32,077	+ 27,077
Long Term Debt (Subsid.)	111,160	176,382	+ 65,222
Preferred Stock	34,110		— 34,110
Preferred Stock (Subsid.)	43,017	68,086	+ 25,069
Common Stock	32,485	51,831	+ 19,346
Surplus	13,350	35,509	+ 22,159
TOTAL LIABILITIES	$309,510	$498,669	+$189,159
WORKING CAPITAL	$ 10,845	$ 25,385	+$ 14,540
CURRENT RATIO	1.5	1.7	+ .2



What's Behind Mergers in

SHOE Industry?

By JOHN D. C. WELDON

The shoe industry is undergoing a transition. The big shoe producers are building vertical integration through the acquisition of established retail shoe chains and other large retail outlets. The purpose behind the movement is obvious. Anticipating keener competition for the consumer dollar, the big shoemakers are planning vigorous advertising compaigns and other sales promotion efforts, and are of the opinion that they can get better results from expenditures along these lines through retail outlets over which they have more direct control.

The first inkling of this development on a major scale was seen as far back as 1951, when Brown Shoe, one of the big three in the manufacturing end of the business exchanged some of its share for ownership of the Wohl Shoe Co., the nation's largest operator of leased shoe departments. Wohl, extending its operations since the acquisition, is now operating 322 departments selling men's, women's and children's shoes in leading department stores throughout the country. Meanwhile, Brown has been concentrating on the job of expanding the number of its franchise stores. These are retail units, now numbering 516, that are independently owned and operated by merchants, under their own names, but which concentrate their buying and merchandising on Brown brands.

This plan is much the same as that inaugurated by International Shoe in 1950 when it created the Shoenterprise Corp., a wholly-owned subsidiary. Shoenterprise's mission is to set up independently owned and operated retail outlets for International's products in locations where the parent company had inadequate or no sales representation. There are now more than 200 of such retail stores in operation.

While its contemporaries in the shoe manufacturing industry were thus engaged General Shoe, without fanfare or undue publicity, took into its fold in 1950, the W. L. Douglas Shoe Co., and its 64 retail stores. General followed this move in the following year by acquiring the Nisley Shoe Co., operating a chain of 44 retail stores selling women's shoes in the medium price range. General continued to pursue this expansion in the retail store field in 1952 with the acquisition of the Innes Shoe Co., of Los Angeles and the Guarantee Shoe Co., in San Antonio, Texas. The Innes organization operates a strong group of shoe stores and leased departments and is one of the best known shoe retailers in the United States, operating pri- *(Please turn to page 411)*

Earnings and Dividends of Leading Shoe Companies

	Earnings per Share 1951	Earnings per Share 1952	Dividends per Share 1951	Dividends per Share 1952	Price Range 1952-53	Recent Price	Yield*
Beck, A. S.	$ 2.30	$ 1.73	$ 1.30	$ 1.30	17 -13⅞	15½	8.3%
Brown Shoe	4.71	6.04	3.40	3.40	66½-51½	61½	5.5
Endicott-Johnson	2.52	2.82	1.60	1.60	30¼-26	26¾	5.9
Florsheim Shoe "A"[1]	1.47	1.77	1.00	1.00	20 -13⅛		....
General Shoe	4.50	4.11	2.50	2.50	51 -36½	48⅛	5.1
International Shoe	2.61	2.44	2.40	2.40	40⅞-36⅜	39⅛	6.1
Kinney (G. R.) Co.	3.48	4.35	1.70	1.70	41⅞-18¾	35¾	4.7
Melville Shoe	2.00	1.91	1.80	1.80	28½-23⅛	26½	6.7
Regal Shoe[2]	0.44	0.33	0.30	0.20	9½- 3½	9⅜	2.1

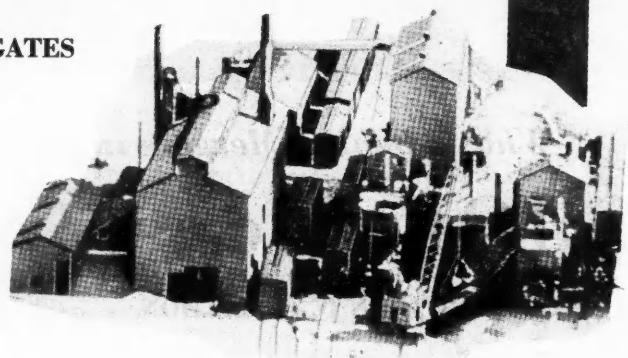
*—Based on 1952 dividend rate.

1—International Shoe now owns 97% of "A" stock.

2—Now controlled by Brown Shoe Co.

Do You Own ANY OF THESE 15 Stocks?

By WARD GATES



In the recent market decline, it may have gone unnoticed that many stocks have had a "bear" market of their own for a period varying from one to two years. Some of these issues, as the accompanying table shows, have declined from 35% to 50% compared with their 1952 highs. Declines as persistent and substantial as these are not accidental but are based on adverse changes in the industry with their consequent effect on earnings. However, since the market has a way of discounting these changes far in advance, the question is whether these issues have not already "seen the worst". This, of course, is a question in which holders of such stocks are deeply concerned. Naturally, they will welcome any light that may be cast on possible future market action.

We have selected fifteen stocks which have had a material decline since the end of 1951 and have analyzed them from the practical standpoint as to whether they should be held or not. In each case, our recommendations are based on prospects for eventual recovery in earnings. Where such prospects are in evidence, we have suggested that the stocks be held. Where such evidence is lacking, we have suggested that they be disposed of. A brief description of the situation affecting each of the fifteen stocks is given below:

American Viscose: This first-class "growth" equity has disturbed the equanimity of its holders by the wide decline since 1952 from 69⅞ to the recent price of 42½. In 1952, earnings were $4.88 a share compared with $5.37 a share in 1951 and $7.84 a share in 1950. In 1951 and 1952, the company was affected by disturbances in the textile industry especially with regard to sales of rayon and acetate textile yarns. With competitive conditions growing, it is believed that sales for these products in particular will not equal those of previous peak years. However, the company is one of the dominant factors in its field and the recent wide decline in the stock would seem to have discounted a good part of the undoubted difficulties now experienced and in prospect. The current 50-cent quarterly dividend is amply covered but it is not certain that last year's extra of 50 cents a share will be repeated. Nevertheless, at current comparatively moderate prices, it would seem that the stock should be retained in view of the definite growth prospects of the company.

Bristol-Myers: The decline in this issue from a high of 35⅝ last year to its current all-time low of 20, tends to focus attention on the somewhat erratic course of earnings of the company over the past decade. While 1952 net of $1.47 a share was disappointing, especially when compared to the 1951 showing of $3.65 a share, indications are lacking that 1953 net will show any improvement. Results for the first quarter of this year were equal to 36 cents a share as compared with 69 cents in the first three months of 1952. A major factor for the comparatively poor showing last year and the first quarter of this is the continued price-weakness for penicillin, although, on the basis of 1952 figures, some restriction on earnings was brought about by the greater cost of labor, materials and other operating expenses. Management took cognizance of the situation when it reduced quarterly dividend payable in the first quarter to 25 cents a share. Expansion in the antibiotics field marked by the introduction of three new products during 1952, may aid future earnings. In view of this possibility, plus the fact that the current market price for the stock, appears to have given consideration to the disappointing showing, as well as the dividend cut, the stock is worthy of retention from the long-range standpoint.

Canadian Pacific Railway: From last year's high of 40¾, this issue has slumped to recent price around 26½, the decline reflecting disappointment in earnings falling from $2.98 a share in 1951 to $2.61 a share for last year. This comparatively poor showing was made despite the company achieving an all-time record high in gross earnings of $457.8 million. Although the company has many ramifica-

tions, including petroleum rights on huge acreages of oil lands, all of which are important contributors to earnings, it is essentially a railway operator. As such it stands to benefit from the further economic development of the Dominion, but by its own estimate, capital outlays of $475 million will be required during the next five years for contemplated improvements and additions and to replace worn-out facilities of the rail system. Carrying out of this program will require financing, the first step being taken last May when stockholders approved issuance, at directors' discretion, of an additional 2 million shares of ordinary capital stock, of which there are now 13.8 million shares outstanding. Although current dividend requirements should continue to be earned, the stock does not rate as an investment issue, but should be retained for its long-range speculative possibilities.

Celanese Corp.: This issue, in a downtrend since early last year, has lost approximately 51% of its market value, measuring from the January, 1952 high of 51⅝, to the current price, around 25½. Factors contributing to the decline were the failure of textile industry to pull out of its depressed state during the year, although some improvement was experienced in the final half, and the development of a degree of uncertainty as to the immediate future of acetate and rayon fibers, considering possible competition with the new non-cellulosic fibers. Net earnings for 1952, amounting to 77 cents a share for the common stock are in contrast to $3.56 a share in the previous year, and $6.38 a share in 1950. In view of the poor 1952 showing, quarterly dividends of 75 cents a share were reduced in the second quarter to 50 cents, and more recently again cut to 25 cents a share. Aggressive management, in addition to improving its position in the acetate and rayon fiber field by retiring from the commercial weaving industry and realigning its textile division, is aiming for greater efficiencies and economies. Simultaneously, it is putting considerable effort into expanding its chemical and plastics business. One phase of this latter program includes production at the new Pampa, Texas, chemical plant, of vinyl acetate, having wide possibilities in industry and currently being used in substantial volume. The improved outlook justifies the opinion that Celanese is approaching the point of return to more favorable conditions. The issue is still in the "growth" category and is worthy of being retained at present levels.

Cerro de Pasco: In casting about for an explanation of the decline in market value of this issue from a 1952 high of 58¼ to a prevailing 26½, one need do no more than consider the sharp decline in net from $11.70 a share for 1951, to $5.86 a share in 1952, and then weigh 1953 first quarter earnings of 25 cents a share against $2.65 a share earned in the corresponding months of 1952. There are no sharply defined indications that the balance of the year will be much more profitable. Notwithstanding efforts by government agencies last year to hold zinc and lead prices up, pressure of supplies of these metals on the market broke the resistance and current spot prices are around 11¢ for zinc and 13¼¢ for lead. The market, even at these levels, appears to be uneasy, while copper quotations have not exhibited outstanding strength since the moderate advance following lifting of price controls. Of course, revival of war scares or a radical change in Washington's attitude toward defense needs could strengthen the metals market, but in any event, this issue must be regarded as speculative and retention should be only on that basis.

Diamond Alkali: This is another of the "growth" stocks that has undoubtedly created apprehension among investors with commitments at higher levels by its reaction from a 1952 high of 43 to a recent low around 26¾. Net earnings of the company of $2.18 a share last year were down from the 1951 level of $2.95 a share, but there were mitigating circumstances. Aside from the squeeze on profit margins between rigid price controls then in effect and higher operating costs, extraordinary non-recurring abandonment and start-up expenses took $1.3 million of earnings. In addition strikes in the oil refineries and the steel industry substantially reduced demand for certain products. First quarter 1953 saw an upturn in sales to $21.5 million. Net income was equal to 63 cents a share against 76 cents for 1952's first quarter. Funds raised through February, 1953, sale of $15 million of 3⅜ S. F. Debentures will be used principally for expansion, *(Please turn to page 409)*

15 Stocks With Large Market Declines

	High Price 1952-53	Recent Price	% Decline From 1952-53 High to Recent Price	Net Per Share 1951	Net Per Share 1952	1st Quarter Net Per Share 1952	1st Quarter Net Per Share 1953	Indicated Dividend	Div. Yield
American Viscose	69[illegible]	42½	39%	$ 5.37	$ 4.88	$ .95	$ .84	$ 2.00	4.7%
Bristol-Myers	35⅝	20½	42	3.65	1.[illegible]7	.69	.36	1.00	4.9
Canadian Pacific	40¾	26	35	2.98	2.61	n.a.	n.a.	1.50	5.9
Celanese Corp. of America	51⅝	25½	51	3.56	.77	(d) .04	.26	1.00	3.9
Cerro de Pasco Copper	58¼	23¾	58	15.87	8.79	2.64	.25	2.00[3]	8.4
Diamond Alkali	43	26¾	37	2.94	2.18	.76	.63	1.50	5.6
Ferro Corp.	38½	21⅞	42	3.76	2.30	.52	.63	.80[3]	3.6
Food Machinery & Chemical	56¼	36	35	4.01	3.41	.95	.87	2.00	5.5
Kern County Land	71	45¾	35	2.83	2.93	.....	.....	2.25	4.9
Masonite	33½	19⅜	42	2.81	2.49	.68[1]	.44[1]	1.00	5.1
Merck & Co.	35½	19¼	45	1.62	.96	.33	.23	.80	4.1
New York, New Haven & Hartford R.R.	34	21¼	37	1.92	3.83	.75	.66	.....	....
Parke, Davis & Co.	58	34	39	3.89	3.32	1.05	.45	1.80	5.3
Servel	14⅜	9⅜	35	(d) .69	.85	.25[2]	.02[2]	[5]	....
Stevens (J. P.) & Co.	44¼	27¼	38	5.65	2.27	.75[4]	.58[4]	2.00	7.3

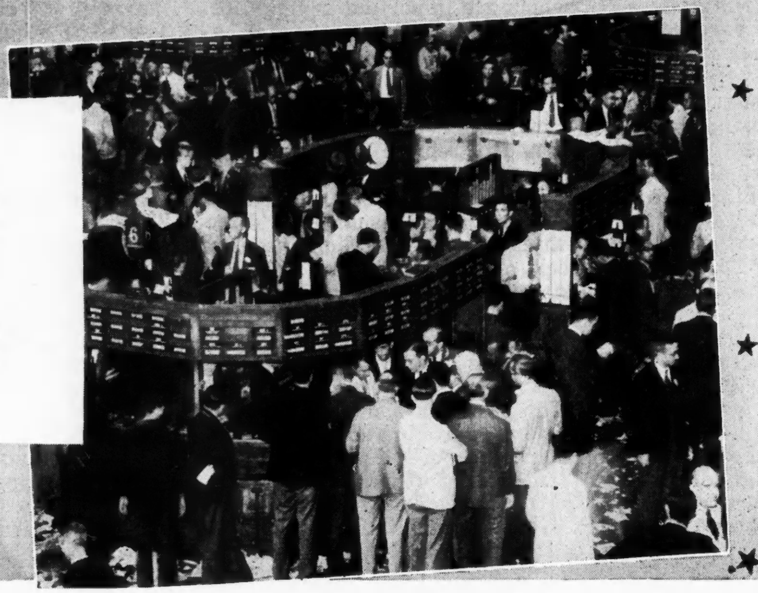
(d)—Deficit.
n.a.—Not available.
1—Quarter ended February 28.
2—Quarter ended April 30.
3—Plus Stock.
4—Quarter ended January 31.
5—Uncertain.

FOR

PROFIT

AND

INCOME



Confirmations

The bull market ended at the January and December highs of the Dow-Jones industrial and rail averages, respectively, and we have since been in a bear market, according to some interpreters of the Dow Theory. Not so—at least not yet—opine others. The first interpretation hinges on the fact that both averages recently broke their April lows decisively after failing to better the earlier tops on the four-week rally in February-March. Those who argue to the contrary say that the pre-election lows of last October must be broken to indicate a bear market. At lowest closing level up to this writing, the industrial average held a fraction above last October's low, the rail average by a little better than 1 point. The trouble with Dow Theory is that those who presume to be expert on it so often disagree on the "signals." The trouble with any technical indicator is that, even if proven right on the trend, the question of how far the trend might go remains a matter of judgment. A small rally was in progress as this was written, but does not prove anything one way or the other for Dow Theorists.

The Record

The theoretical results attainable by acting on past bear-market confirmations varied widely. A record can be cited because most Dow-Theory experts agree—some by hindsight—on the placement of past confirmations, even if they do not agree on current interpretations. Going back to 1899, percentage declines in the industrial average following bear-market confirmations ranged all the way from a minor 5.6% in 1923 to a whopping 86.5% in 1929-1932. Other large ones were 42.7% in 1906-1907; 36.1% in 1920-1921; 39.8% in 1937-1938; and 36% in 1940-1942. There were two in the vicinity of 23% to 24%; three of 13% to 16%; and four of less than 10%. The last two bear markets were minor ones, the average falling a total of 23.2% in 1946-1947, and 16.3% in 1948-1949. In the first the decline after confirmation was only 8.6%, in the second only 7.1%. Selling is, of course, only one side of a turn-around operation. Whether you gain, lose or break even thereon depends also on where you buy back. Considering the margin for error in trend interpretations on a current basis, taxes on realized profits and transaction costs, the odds are against much, if any, turn-around profit, following downtrend confirmation, in either a minor or moderate-range bear market. The present fundamental factors, cited in our general market discussion, argue against a major one.

Stocks

The great majority of the stock groups and hundreds of individual stocks recently reached new lows for the year or longer. Among the minority of stocks holding relatively well have been Allied Stores, American Can, American Stores, Armstrong Cork, Beech-Nut Packing, Best Foods, Borden, American Snuff, Briggs & Stratton, Clinton Foods,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Columbia Broadcasting	13 weeks Apr. 4	$1.03	$ .65
General Precision Equipment	Mar. 31 Quar.	1.01	.06
Bendix Aviation	Mar. 31 Quar.	2.23	1.72
Bigelow-Sanford Carpet	Mar. 31 Quar.	1.18	.15
Caterpillar Tractor	12 mos. Mar. 31	5.63	3.74
Lowenstein (M.) & Sons	Mar. 31 Quar.	1.67	1.11
United Aircraft Corp.	Mar. 31 Quar.	1.75	1.07
Munsingwear, Inc.	Mar. 31 Quar.	.40	.003
American Water Works Co.	Mar. 31 Quar.	.19	.07
Fairchild Eng. & Airplane	Mar. 31 Quar.	.38	.23

Continental Baking, Continental Can, Federal Mogul, Hilton Hotels, Jewel Tea, Kroger Grocery, National Lead, National Tea, Pacific Lighting, Revere Copper & Brass, Reynolds Tobacco, Safeway Stores, Scott Paper, Sunshine Biscuit, Texas Gulf Producing and United Aircraft. The majorty, but not all, of these are defensive-type income stocks or, otherwise, relatively good-grade issues.

New Deal

Conservative investors who prefer fixed-income investments took it on the chin for years under the New Deal and the Fair Deal. As a result of the cheap-money policy, yields obtainable by buying bonds or preferred stocks were sharply reduced; while, as compared with prewar, inflation cut the buying power of any given amount of fixed annual income by roughly 46%. Now these "forgotten people" of the Roosevelt and Truman "deals" have a new deal on both counts. Reflecting anti-inflation monetary policy, yields on bonds and preferred stocks have risen to the highest levels since prewar; and, barring World War III, the dollar is more likely to gain at least modestly in purchasing value over the presently foreseeable future than to depreciate further. The pressure on conservative people to stretch income return by buying common stocks has been greatly reduced. Good-grade bonds and preferred stocks are in a sound buying range, regardless of the debatable question whether they may or may not go a little lower before they stabilize and point upward.

Preferreds

Representative preferred stocks are now on a yield basis of about 4.5% on average—somewhat less on some highest-grade issues—against a little over 6% for representative industrial stocks. Examples of good issues, all non-callable, and current approximate yields, are: American Can \$1.75, yield 4.2%; National Biscuit \$7, yield 4.3%; National Lead \$7, yield over 4.4%; Helme \$1.75, yield nearly 4.6%; Atchison \$2.50, yield 4.8%; and Union Pacific \$2, yield 4.4%. These are good returns, and there is probability of moderate long-term appreciation when money rates ease under less active business conditions.

Good Names

In buying common stocks or deciding whether to stay with those you hold, too much attention should not be paid to "good names". Some good-name companies—that is, old, prominent and well-established in their fields—are going places, while others are not. There is no percentage in buying or holding duds, whether the name is good or not. Past results in a number of good-name stocks have been below average, with nothing foreseeable to suggest much, if any, better results in future. As an example, Underwood Corp. was cited here several weeks ago. Here are four more examples: Electric Storage Battery, 1929 high $104\frac{1}{2}$; 1937 high $44\frac{1}{2}$, 1946 high $56\frac{1}{8}$; latest high $46\frac{1}{2}$ in 1951; current price $31\frac{3}{8}$. Pullman, 1929 high $99\frac{1}{4}$; 1937 high $72\frac{1}{8}$; 1946 high $69\frac{3}{8}$; latest high $48\frac{7}{8}$ in 1950; current price $39\frac{3}{4}$. Timken Roller Bearing, 1929 high $139\frac{3}{8}$; 1937 high 79; 1946 high $51\frac{3}{4}$; latest high $51\frac{3}{4}$ in 1951; current price $40\frac{5}{8}$. U. S. Pipe & Foundry, 1929 high $55\frac{7}{8}$; 1937 high $72\frac{1}{4}$; 1946 high $60\frac{1}{4}$; latest high $49\frac{1}{8}$ in 1950; current price 36.

Sell It

From a 1953 low of $34\frac{1}{2}$, American Car & Foundry recently reached a high of $49\frac{3}{4}$, an outstanding performance; and has since receded only moderately to 46 at this writing. It took a remarkable budget of concentrated good news to put it to $49\frac{3}{4}$, where it remained well under earlier highs of $65\frac{3}{4}$ in 1946, $64\frac{1}{2}$ in 1937 and $96\frac{7}{8}$ in 1929. The news in one batch was declaration of a \$2 special dividend, a 10% stock dividend, declaration of four quarterly payments of 75 cents each (the regular \$3 rate) for the fiscal year ending April 30, 1954; and a statement by the management that it estimated earnings for the year ended last April 30 at "more than \$10 a share", a new peak, comparing with the prior year's \$7.85. The company is heavily dependent on demand for railroad cars, other heavy-industry products and auto carburetors. Hence, cyclical swings in its fortunes have been wide. In quite a few lean years it has lost money and paid no dividends. The high current-yield basis (about 10.8%) further emphasizes the stock's speculative status. So does a current yield basis of nearly 9% for the \$7 non-cumulative preferred stock, on which payments were omitted in 1933, 1934, 1935, 1936, 1938 and 1939. Notwithstanding the fact that the company is better diversified than formerly, and is financially strong, the stock seems to shape up as a better sale than buy.

Natural Gas

The Eisenhower election did not change the Federal Power Commission, but maybe it has become mindful of a change in the "climate". At any rate, it is at long last conceding, by action, that profits of natural gas pipe line companies subject to its regulation, had been unduly squeezed between permitted selling rates and the higher cost of purchased gas. It has begun to approve some substantial rate boosts which will aid earnings importantly. One case in point is Mississippi River Fuel. Earnings were \$3.57 a share last year, but only 45 cents in the 1953 first quarter, against 83 cents a year ago. However, an approved rate boost, recently effective, figures to add around \$2 a share to annual-rate earning power, suggesting close to \$4 for

(*Continued on page* 414)

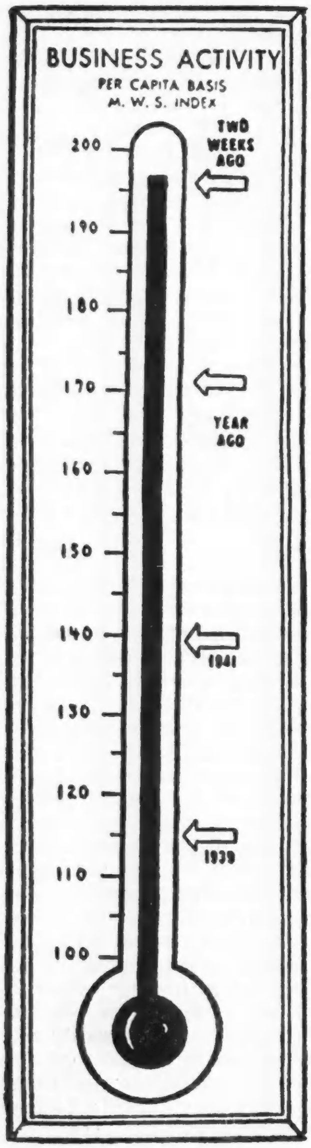
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Archer-Daniels-Midland	9 mos. Mar. 31	\$1.96	\$3.47
American Smelt. & Refin.	Mar. 31 Quar.	.76	1.56
Square "D" Co.	Mar. 31 Quar.	.67	.96
Aluminum, Ltd.	Mar. 31 Quar.	.38	.62
Ashland Oil & Refining	6 mos. Mar. 31	.95	1.38
United Air Lines	Mar. 31 Quar.	.04	.26
M. & M. Wood Working Co.	Year Feb. 28	.93	1.78
Crane Co.	Mar. 31 Quar.	.47	.97
Hammermill Paper Co.	Mar. 31 Quar.	.31	.45
American Metal Co.	Mar. 31 Quar.	.37	.97

What's Ahead for Business?

By E. K. A.

One of the major problems of American business—and one that appears thus far to have been given less consideration than it merits—is how the widening spreads in manufacturing and distribution costs can be narrowed in order to prevent sharp drops in volume or profit margins in the event of a downtrend in consumer income. There is ample evidence that many business men have become lax in this matter of costs, since the prolonged post-war business boom and steady rise in consumer income have facilitated the movement of high level production.



The rate of rise in consumer income has slowed down appreciably in recent months, and the end of the long upturn in incomes may be close at hand if not already here. Although most economists anticipate no more, at most, than a gentle decline in general business activity during the rest of this year, they are very cautious on their forecasts for 1954. We have learned that governmental activities, mainly of an inflationary nature, can stimulate a business boom once it is under way from natural forces, but we have no assurance that a decline in business can be checked with such a high degree of nicety as many business men appear to believe.

Against this background of the possibility, if not the probability, of declining consumer income, there is justification for concern, for instance, in the recent increases in wages and prices in the steel industry. For a number of years, "steel has set the pace" for wage increases in numerous other industries. Wages are easy to increase and hard to reduce, and it would be most unfortunate for industry if a fresh round of wage increases is granted, following the precedent of the steel industry. Although, because it suits their purpose, the union executives maintain that wage increases will stimulate consummer incomes and business activity, we cannot subscribe to this Keynesian theory.

Since last February, there has been a slight but nevertheless important decline in the retail sales volume in consumers durable goods. The declines undoubtedly would have been greater had not many retailers reduced prices, at the sacrifice of profit margins, in a not altogether successful attempt to maintain volume.

Meanwhile, manufacturers of durable goods—faced with risin gcost sfor steel, demands for higher wages, and continued uptrends in other production costs—are finding it difficult to hold prices down, even while distributors are pressing them for price reductions. In nondurables, the problem is not so acute since prices of numerous materials have declined somewhat as offsets to increases in production and distribution costs, but the problem nevertheless is real and is likely to become intensified.

Although numerous rigidities have been imposed on the costs of production and distribution, with the high degree of labor organization a major factor, there are large areas where paring of costs is possible. In many businesses, office staffs have been permitted to become topheavy. Mechanization, notwithstanding the fact that the equipment is available. ress made in some instances in the mechanization of production, notwithstanding the fact that the equipmen is available.

Where union organization precludes wage reductions even in the face of slower business, productivity can be raised. While there has been a great deal of talk of increased productivity, gains along this line have failed to develop in many manufacturing organizations. In some instances, management has become soft, condoning methods and practices that have acted as brakes on labor's productivity. This attitude will naturally find reflection in the attitude of the workers. The easy times appear to be approaching an end. Labor and management are equally conscious of this. It is time then, for management to get its house in order. This involves careful weighing of operating costs for the purpose of achieving economies in both production and administration and the caulking of the seams to eliminate seepage of what otherwise might be net profits. Where it has not already been done, managemnt must also start planning to met increasing competition and to lay out programs assuring it, so far as it is possible, of a satisfactory share of the consumer dollar and the broadening of markets for its products.

The Business Analyst

HIGHLIGHTS

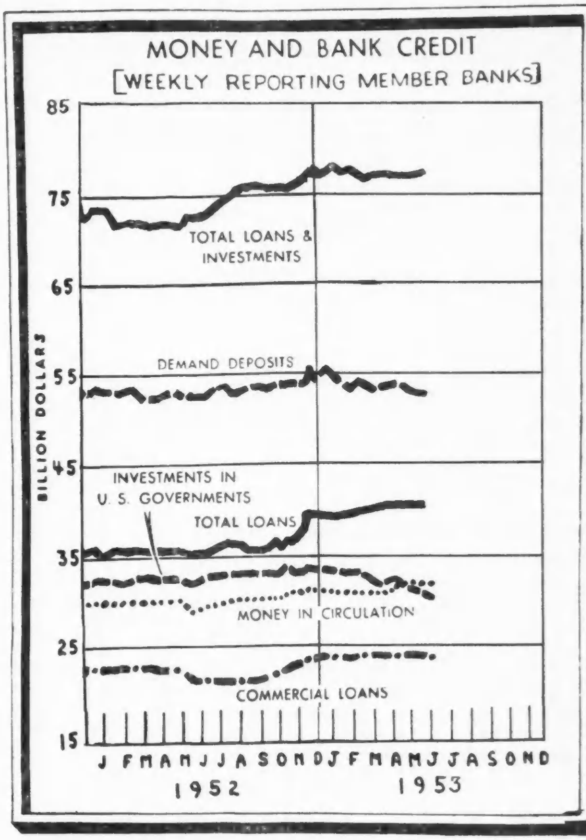
MONEY & CREDIT—Treasury securities have been firm thus far in June, in contrast to last month's pronounced weakness. In the first two weeks of June the bank-ineligible 2½s of 1972-1967 gained ⅝ and the shorter term 2⅜s of 1958 were ¾ higher. The market for Treasuries received some sustenance from Secretary Humphrey's statement that a large part of the Government's cash needs for the remainder of this year could be met by sale of tax-anticipation bills payable in the first half of 1954 when a sizeable budget surplus is looked for. These bills are popular with corporations and should have a minimum effect on Government bond prices in general. Perhaps a more influential factor in the market has been the heavy buying of Treasury bills by the Federal Reserve which purchased $110 million worth in the week ending June 10. In the past five weeks these holdings have increased by $375 million, providing welcome additional funds for member bank reserves. This has made for easier short-term money rates and the Treasury has been able to sell its latest issue of 91-day bills at a 2.229% cost, at annual rates, as against 2.416% two weeks earlier.

Corporate bonds have sold off in the last two weeks and an average of yields of best-rated corporate issues rose to 3.41% on June 15 as against 3.35% at the end of May. The slump in stock and bond markets has been instrumental in causing some corporations to cancel or defer contemplated security issues. It is estimated that in the past two months almost $300 million of debt or equity financing has thus been cancelled or postponed. This does not necessarily indicate a serious shrinkage in industry expansion plans as some of the concerns may float issues at a later date or turn to the banks for necessary funds. However, the diminution of security offerings indicates that higher interest rates are a factor to be reckoned with in gauging business prospects.

Yields on tax-exempt securities are rising steadily and the yield index compiled by the Bond Buyer stood at 2.96% on June 11 as against 2.81% two weeks earlier. The volume of offerings of municipals is going to be a near-record in the thirty days ending July 15 with some $495 million worth scheduled for sale. The largest offering will be the $150 million New Jersey Garden State Thruway issue, slated for June 30 while the $96 million Mackinac Bridge Authority bonds are also on the books for late June.

TRADE—Retail trade made a good showing in the week ending Wednesday, June 10, as warm weather increased consumer interest in apparel and outdoor equipment. Dun & Bradstreet estimates that total sales for the period were about 4% higher than a year ago. The Southwest and Pacific Coast areas had the best results with gains close to 6%. Demand for household goods was a bit above a year ago with popularity shifting to small appliances, outdoor furniture and cooling devices. There was a drop in buying of television sets and large appliances while used cars were a drug on the market.

The rapid rise in consumer credit—up $5.3 billion in a year's time—has been worrying some retailers who fear that the burden of repayments will eventually act to stunt consumer purchasing power.



INDUSTRY—Industrial output has been proceeding at a steady pace at close to peak levels thus far in June. The MWS Business Activity Index on a per capita basis, stood at 197.2% of 1935-1939 average for the week ending June 6, unchanged for the third week in a row and not far from the year's high of 199.8 reached late in March. The latest week saw increased output of coal and electric power while crude oil runs to stills also were higher. Freight car loadings, lumber shipments and paperboard production were slightly lower than the week before.

COMMODITIES—The slow-moving index of commodity prices in primary markets, compiled by the Bureau of Labor Statistics lost an inconsequential 0.1% in the week ending June 9 to close at 109.6% of the 1947-1949 average. Farm products were unchanged from the week before but meat products lost 2.1%. A look at later data for some individual commodities shows that grain prices suffered a severe decline in the week ending June 15. Thus wheat was down 15¾ cents, corn 7 cents and rye 8¼ cents from June 8 to June 15. Other actively traded commodities were but little changed despite the break in grains. *(Please turn to the following page)*

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	May	4.1	4.3	4.1	1.55
Cumulative from mid-1940	May	504.5	500.4	453.2	13.8
FEDERAL GROSS DEBT—$b	June 10	267.3	266.7	260.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 3	53.7	53.9	53.2	26.1
Currency in Circulation	June 10	30.0	30.0	28.8	10.7
BANK DEBITS—(rb3)**					
New York City—$b	May	50.3	53.1	50.8	16.1
344 Other Centers—$b	May	91.9	96.3	86.8	29.0
PERSONAL INCOMES—$b (cd2)	Apr.	283.1	282.8	262.5	102
Salaries and Wages	Apr.	191	190	173	66
Proprietors' Incomes	Apr.	52	53	51	23
Interest and Dividends	Apr.	22	22	22	10
Transfer Payments	Apr.	14	14	12	3
(INCOME FROM AGRICULTURE)	Apr.	19	20	20	10
POPULATION—m (e) (cb)	May	159.3	159.1	156.6	133.8
Non-Institutional, Age 14 & Over	May	111.4	111.3	109.4	101.8
Civilian Labor Force	May	63.0	62.8	62.8	55.6
unemployed	May	1.3	1.6	1.6	3.8
Employed	May	61.7	61.2	61.2	51.8
In Agriculture	May	6.4	6.1	7.0	8.0
Non-Farm	May	55.3	55.2	54.2	43.2
At Work	May	60.0	59.1	59.0	43.8
Weekly Hours	May	42.1	42.0	42.6	42.0
Man-Hours Weekly—b	May	2.53	2.48	2.51	1.82
EMPLOYEES, Non-Farm—m (lb)	Apr.	48.8	48.6	47.4	37.5
Government	Apr.	6.6	6.6	6.6	4.8
Factory	Apr.	13.8	13.8	12.9	11.7
Weekly Hours	Apr.	40.8	41.1	39.8	40.4
Hourly Wage (cents)	Apr.	175.0	175.0	165.0	77.3
Weekly Wage ($)	Apr.	71.40	71.93	65.67	21.33
PRICES—Wholesale (lb2)	June 9	109.6	109.7	111.6	66.9
Retail (cd)	Mar.	208.2	207.8	208.7	116.2
COST OF LIVING (lb3)	Apr.	113.7	113.6	112.9	65.9
Food	Apr.	111.5	111.7	113.9	64.9
Clothing	Apr.	104.6	104.7	106.0	59.5
Rent	Apr.	122.1	121.7	116.9	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Apr.	14.4	14.4	13.4	4.7
Durable Goods	Apr.	5.2	5.2	4.5	1.1
Non-Durable Goods	Apr.	9.2	9.2	8.9	3.6
Dep't Store Sales (mrb)	Apr.	0.81	0.86	0.78	0.34
Consumer Credit, End Mo. (rb2)	Apr.	26.2	25.7	20.9	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total **	Apr.	26.0	24.8	24.3	14.6
Durable Goods	Apr.	12.8	12.2	12.4	7.1
Non-Durable Goods	Apr.	13.2	12.6	11.8	7.5
Shipments—$b (cd)—Total**	Apr.	26.9	25.7	23.5	8.3
Durable Goods	Apr.	13.6	13.0	11.3	4.1
Non-Durable Goods	Apr.	13.3	12.6	12.2	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Apr.	76.0	75.3	73.9	28.6
Manufacturers'	Apr.	44.3	44.1	43.4	16.4
Wholesalers'	Apr.	10.2	10.2	10.0	4.1
Retailers'	Apr.	21.5	21.1	20.5	8.1
Dept. Store Stocks (mrb)	Apr.	2.5	2.4	2.3	1.1
BUSINESS ACTIVITY—1—pc	June 6	197.2	197.2	172.0	141.8
(M. W. S.)—1—np	June 6	240.7	240.7	204.6	146.5

PRESENT POSITION AND OUTLOOK

In the adjoining column the reader will find a new series—**BANK DEBITS**—which replaces the previous one on bank clearings. The new data is seasonally adjusted and should be a useful indicator of the level of business transactions, particularly the series on debits outside New York City which are less liable to distortion by financial transactions. Bank debits outside New York City reached an all-time peak of $96.3 billion in April. There was a setback in May to $91.9 billion but at this level they were still 5.2% above the corresponding 1952 month.

* * *

Businessmen are planning record outlays for **NEW PLANT AND EQUIPMENT,** according to results of a survey last month by the Commerce Department and the Securities & Exchange Commission. Capital outlays of $7.2 billion and $7.1 billion, respectively, are scheduled for the second and third quarters of 1953, in addition to the $6.1 billion actually spent from January-March, 1953. If present programs materialize, capital expenditures for the first nine months of 1953 will total $20.5 billion, 7% above the corresponding period of last year. Public utilities expect to spend $3.3 billion in the first nine months for plant expansion, or 23% more than last year while all manufacturing industries are planning to spend $9.2 billion, or 7% more. Manufacturers of non-durables intend to spend 10% more than in 1952 while durable goods makers are expecting to show a gain of only 4% in capital spending.

* * *

Expenditures for **NEW CONSTRUCTION** rose to $2.9 billion in May, 10% above April and 6% higher than May, 1952, the Bureau of Labor Statistics has reported. Although most of the April-May rise occurred in private residential construction and road building, adverse weather kept these types of work from gaining as much as usual in May. Private expenditures were up 8% in May from the month before while public outlays gained 13%. For the first five months of 1953 total new construction amounted to $12.6 billion, almost 6% above the corresponding 1952 period. Private construction with a value of $8.7 billion accounted for most of the gain over last year, largely because of increased outlays for new dwellings and commercial building.

* * *

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1 np (rb)**	Apr.	242	243	216	174
Mining	Apr.	162	162	166	133
Durable Goods Mfr.	Apr.	327	328	277	220
Non-Durable Goods Mfr.	Apr.	198	201	183	151
CARLOADINGS—t—Total	June 6	775	787	684	833
Misc. Freight	June 6	376	384	338	379
Mdse. L. C. L.	June 6	67	68	70	156
Grain	June 6	47	50	45	43
ELEC. POWER Output (Kw.H.) m	June 6	8,096	7,961	7,005	3,267
SOFT COAL, Prod. (st) m	June 6	9.1	8.8	7.6	10.8
Cumulative from Jan. 1	June 6	193.5	184.4	217.8	44.6
Stocks, End Mo.	Apr.	70.5	70.2	78.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 6	6.4	6.4	6.1	4.1
Gasoline Stocks	June 6	153	152	123	86
Fuel Oil Stocks	June 6	42	41	39	94
Heating Oil Stocks	June 6	77	71	54	55
LUMBER, Prod.—(bd. ft.) m	June 6	254	243	243	632
Stocks, End Mo. (bd. ft.) b	Apr.	8.1	8.2	8.0	7.9
STEEL INGOT PROD. (st) m	May	10.0	9.5	8.2	94
Cumulative from Jan. 1	May	48.5	38.5	43.4	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 11	369	215	244	94
Cumulative from Jan. 1	June 11	7,238	6,869	6,112	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 6	382	227	245	165
Cigarettes, Domestic Sales—b	Apr.	32	35	32	17
Do., Cigars—m	Apr.	520	502	492	543
Do., Manufactured Tobacco (lbs.)m	Apr.	19	17	18	28

PRESENT POSITION AND OUTLOOK

Manufacturers shipped 7,599,383 **PASSENGER TIRE CASINGS** to dealers in April, an increase of 10.6% over March, according to data of the Rubber Manufacturers Association. Production of casings was down 1.1% in April to 7,832,741 tires from 7,918,828 the previous month. With production still exceeding shipments, inventories in the producers hands rose 2.3% to 13,665,786 tires at the end of the month. On April 30, 1952 manufacturers had 10,584,603 passenger tire casings on hand.

* * *

Expenditures on **NATIONAL ADVERTISING** held at close to peak levels during April, according to the index compiled by Printers' Ink. This index, corrected for seasonal variation, stood at 498% of the 1935-1939 average in April against 500 the month before and was 14% higher than for April, 1952. Biggest gains over a year ago were made by television and newspapers, each topping last year by 19%. Magazines had a 5% rise, business papers one of 10% while radio advertising was only 1% ahead of 1952. A breakdown of magazine media shows that those of general interest had a 25% gain in advertising over last year, women's magazines did 5% better while farm magazines reported a decline of 8%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1947-49—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Feedral Reserve Board, total consumer credit. rb3—Federal Reserve Bank of N. Y. 1941 data is for 274 centers. st—Short tons. t—Thousands. *1941; November or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

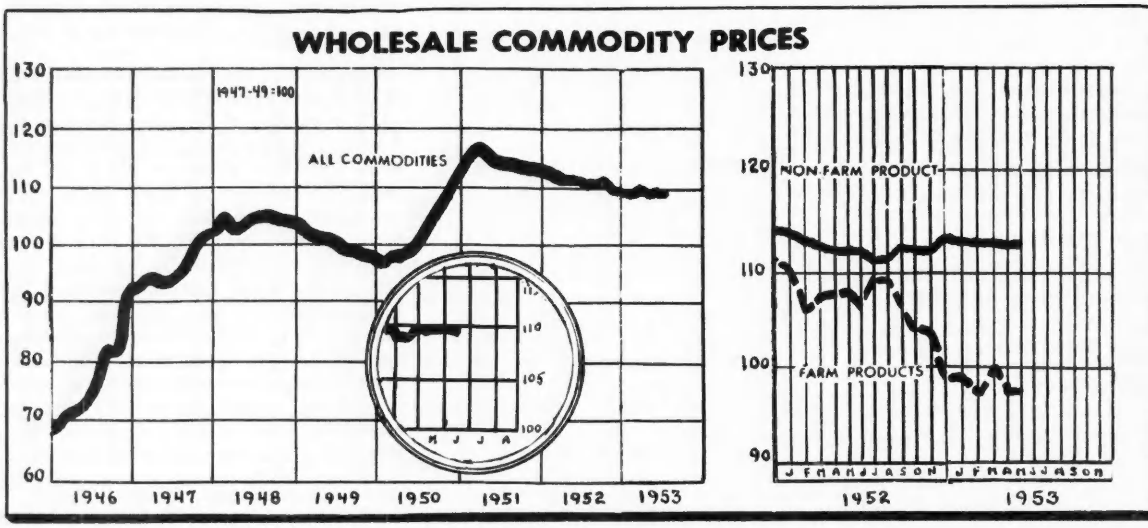
No. of Issues (1925 Cl.—100)	1953 Range High	1953 Range Low	1953 June 5	1953 June 12
300 COMBINED AVERAGE	215.5	192.7	196.4	192.7Z
4 Agricultural Implements	263.3	217.3	222.4	217.3Z
10 Aircraft ('27 Cl.—100)	415.6	341.0	348.1	341.0Z
7 Air Lines ('34 Cl.—100)	693.9	583.7	603.1	583.7Z
7 Amusement	95.9	82.5	85.1	82.5Z
10 Automobile Accessories	289.4	250.3	255.5	250.3Z
10 Automobiles	49.4	43.2	44.2	43.2Z
3 Baking ('26 Cl.—100)	28.0	23.8	26.1	25.4
3 Business Machines	377.4	333.4	337.1	333.4Z
2 Bus Lines ('26 Cl.—100)	182.1	170.2	178.7	178.7
6 Chemicals	396.9	349.7	357.5	349.7Z
3 Coal Mining	15.4	11.6	12.2	11.6
4 Communications	69.3	63.0	66.8	65.5
9 Construction	72.3	64.1	65.5	64.1Z
7 Containers	519.4	461.7	476.1	461.7Z
9 Copper & Brass	175.4	144.1	147.2	144.1Z
2 Dairy Products	97.7	82.3	93.2	92.3
5 Department Stores	63.2	58.9	59.6	58.9Z
5 Drugs & Toilet Articles	235.2	219.5	224.0	219.5
2 Finance Companies	410.0	349.9	358.1	349.9Z
7 Food Brands	200.4	190.8	194.6	190.8Z
2 Food Stores	120.1	113.0	117.7	116.5
3 Furnishings	79.2	69.4	69.4	69.4
4 Gold Mining	760.0	660.9	667.5	660.9Z

(Nov. 14, 1936, Cl.—100)	High	Low	1953 June 5	1953 June 12
100 HIGH PRICED STOCKS	133.5	120.8	122.2	120.8Z
100 LOW PRICED STOCKS	260.6	230.3	235.8	230.3Z
4 Investment Trusts	112.7	97.5	99.7	97.5Z
3 Liquor '27 Cl.—100)	967.8	866.4	866.4	866.4
11 Machinery	240.6	213.1	215.4	213.1
3 Mail Order	128.6	114.2	116.6	114.2Z
3 Meat Packing	101.7	89.3	91.9	89.3Z
10 Metals, Miscellaneous	284.5	232.3	232.3	232.3
4 Paper	474.8	408.2	421.5	408.2Z
24 Petroleum	463.4	413.2	413.2	413.2
22 Public Utilities	194.4	173.8	177.6	173.8Z
9 Radio & TV ('27 Cl.—100)	36.9	30.8	31.9	30.8Z
8 Railroad Equipment	64.1	59.3	60.5	59.9
20 Railroads	53.2	47.0	48.5	47.5
3 Realty	51.5	47.6	48.6	48.6
3 Shipbuilding	269.9	228.7	244.7	231.0
3 Soft Drinks	407.5	342.4	386.9	380.1
11 Steel & Iron	151.4	135.7	137.1	135.7Z
3 Sugar	59.8	53.8	56.2	54.4
2 Sulphur	625.9	543.3	578.7	561.0
5 Textiles	162.2	124.6	126.2	124.6
3 Tires & Rubber	89.7	75.4	75.4	75.4
5 Tobacco	101.6	90.8	96.2	95.3
2 Variety Stores	319.5	298.0	301.1	298.0Z
16 Unclassified ('49 Cl.—100)	125.7	110.1	112.5	110.1Z

Z—New Low for 1953.

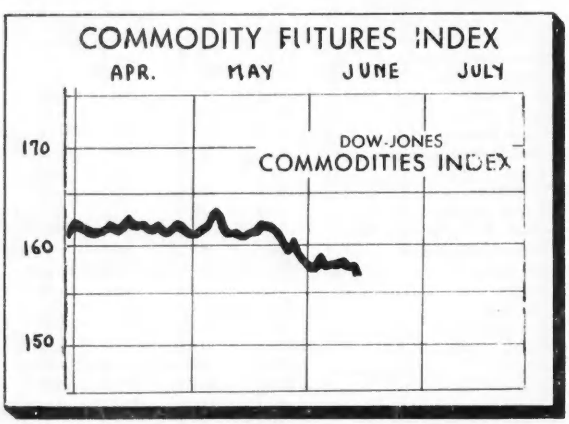
Trend of Commodities

Grain futures broke wide open in the two weeks ending June 15 and this induced precautionary selling in other commodities. The Dow-Jones Futures Index lost 3.91 points during the period to close at 154.62. Most of the loss came on June 15, a day which saw wheat down the 10 cent limit at one time and the Futures Index losing 3.31 points. The weakness was most pronounced in grains and July wheat lost 13½ cents in the two weeks ending June 15 to close at $1.88½. Wheat futures have been subject to wide swings since the end of World War II. After reaching a high of $3.20 in 1947 this grain fell to $1.84 in 1949 and then rallied to a high of $2.70 late in 1951. The latest decline has brought it back close to the 1949 low. The current selling in wheat is associated with expanding harvesting of the winter wheat crop coupled with concern over adequate storage space. The grain must be properly stored to be eligible for Federal price support loans and many bins are already filled with last year's crop. July corn lost 4 cents in the period under review to close at $1.50. The corn crop is making good progress and the CCC has, for months, been selling government-owned corn in danger of spoilage, thus adding to free supplies of the grain. Cotton futures were hardly affected by the weakness in other commodities and the July option lost only 6 points in the two weeks ending June 15 to close at 33.50. There is a feeling that the crop is not doing as well as appears on the surface. It is pointed out that boll weevil infestation is exceptionally heavy and this may adversely affect yields. Hot weather would aid weevil control but might be injurious in other ways.



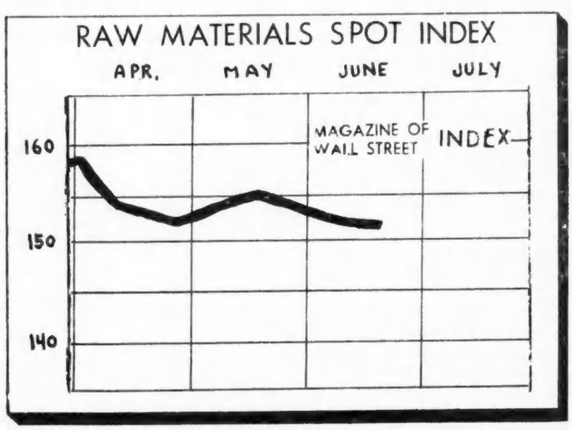
U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date June 15	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	86.6	88.3	90.8	96.6	53.0
9 Foodstuffs	86.2	89.5	88.6	93.4	55.1
3 Raw Industrial	86.8	87.4	92.1	98.8	58.3
5 Metals	97.7	99.1	109.6	111.8	54.6
4 Textiles	90.3	89.6	89.3	95.3	56.3
4 Fats & Oils	55.5	57.0	61.0	65.0	55.6



Average 1924-26 equals 100

	1952-'53	1951	1950	1945	1941	1939	1938	1937
High	181.2	214.5	204.7	95.8	74.3	78.3	65.8	93.8
Low	155.4	174.8	134.2	83.6	58.7	61.6	57.5	64.7



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1952-'53	1951	1950	1945	1941	1939	1938	1937
High	192.5	215.4	202.8	111.7	88.9	67.9	57.7	86.6
Low	153.1	176.4	140.8	98.6	58.2	48.9	47.3	54.6

A New Blue Chip
Investment Audit of National Dairy Products

(*Continued from page* 394)

tion of marketing reports and guarantees farmers a stated minimum for milk going into consumption as a fluid. Uniformity of price has contributed to stability of consumption and to established profit margins. Ruinous competition has been banned.

Ice-cream an Important Factor

Changes in consumer habits and marketing hold out encouragement for better - than - average progress in sales of ice cream. Home freezers, for example, have provided a means for boosting consumption of frozen desserts. Incidentally, this development has proved important for National Dairy and for other manufacturers of branded ice creams now marketed in packages. Owners of home freezers find that they enjoy ice cream for dessert throughout the year—not just in the summer months. As a result, demand for ice cream in the winter may be expected to become important. Distribution in packages permits wider profit margins than if sold in bulk to retailers. Demand for branded merchandise also has enlarged the market for quality ice cream.

New Experimentation

Considerable attention has been focussed on the growth of "substitute" ice cream marketed in the Middle West. The "imitation" made from vegetable oils instead of with butter fat used in making ice cream enjoys a fairly large market in Texas, Oklahoma, Illinois and Missouri. Retail prices average about 10 cents a quart under regular ice cream, and this fact is held to be an advantage in the states where distribution is permitted. State regulations governing foods forbid sale of the vegetable product as "ice cream" and thus interpose restrictions on its growth. National Dairy has been experimenting with the new product in Illinois and in Missouri, but thus far nothing sensational is foreseen for it as a competitor for the consumer's ice cream dollar.

Just as competition in fluid milk has been regulated by legislation, so have inventory risks been minimized. Price support programs designed to assure an adequate supply of milk authorize the Secretary of Agriculture to fix the prices at which butter and cheese will be supported. Hence, processors such as National Dairy run few risks in inventories of these products. The rapid turnover in milk and ice cream virtually eliminates inventory problems for these products. Although large quantities of vegetable oil are used in making salad dressings, margarine, mayonaisse, etc., the risk involved in carrying inventories is small. Inventory problems may arise from time to time as retailers withdraw in anticipation of lower prices, but experience has shown that under present regulations and marketing arrangements the threat of inventory markdowns is virtually nil.

Under the circumstances, the prospect for a high degree of stability and adequate profit margins would seem to warrant a relatively generous appraisal of earning power. Now that financial needs for expansion and improvement in properties may begin to taper off, the outlook would seem reassuring for a higher dividend and for appreciation in the shares. Liberalization of payments may depend upon the action of Congress in prolonging excess profits taxes. If EPT remains effective for all of 1953, earnings may not greatly exceed last year's net. Removal of this impost at the end of this year would seem to hold promise of a boost in earnings next year of perhaps $1 a share, however, and an increase in distributions to about $3.50 a share would appear to be a reasonable hope for 1954.

In Conclusion

The market has been slow to appreciate the improvement in earning power and the potential benefits of stabilized marketing operations. In view of the promise of strong resistance to depressing influences of an economic recession, the shares of this leading factor in the dairy industry affording a return of more than 5 per cent on a well protected $3 dividend appear attractive.

Do You Own Any of These 15 Stocks?

(*Continued from page* 401)

modernization and diversification. The growth prospects of the company warrant retention of its shares on a long-range basis.

Ferro Corp.: Signs, manifested early in the second quarter of 1952, that earnings were running far behind the 1951 rate, vitiated the market strength of the issue with further weakness developing recently as a result of uncertainties overhanging the securities market as a whole. Net income of $2.30 for 1952, compared with $3.66 a share for the year before, was narrowed by failure of an appreciable amount of defense work to produce a profit and by heavy costs incurred in development of new products. Ferro's objectives include commercial production of titanium, powdered metals, fiber glass, and agricultural frit. The need to conserve liquid funds has forced a cut in dividend disbursements to 80 cents in cash, half of the amount being paid in the first quarter and the remainder in the final quarter of this year. In lieu of cash, 2% in stock will be paid in the second and again in the third quarter. Net income in the first three months of this year of 63 cents a share as compared with 50 cents a share in the 1952 period lends support to the estimate of close to $3.00 a share net earnings for the full 12 months. The expansion and diversification program of Ferro gives its stock moderate growth prospects and considering the current price level the issue is worthy of retention.

Food Machinery & Chemical: Speculative enthusiasm engendered by overly-optimistic estimates of earnings for 1952 carried this issue to what proved to be an abnormally high level in the early part of the year. Although gross income of $223 million was 47% greater than in 1951, profit margins on each dollar of sales was down substantially, due to higher costs, fixed or declining price levels for manufactured products, and low profit margins on about $62 million of government business. Also cutting into earnings were expense charges incidental to the planning and construction of new chemical

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Do You Own Any of These 15 Stocks?

(*Continued from page* 409)

plants. Some of these restraining elements on earnings are still in effect. While net sales continue to rise, first quarter volume in 1953, reaching $54 million, about 8% over 1952 first quarter, net income was equal to 87 cents a share as compared with 89 cents a share last year, based on the present amount of outstanding shares. Capable management with which the company is endowed is endeavoring to strengthen earning power of both the food machinery and chemical divisions, at the same time girding itself to meet increasing competition in all of its markets. Expansion in earnings may be slow, but in the meantime dividends at the current rate appear secure, and the long-term outlook for growth warrants patience on the part of present shareowners holding the stock at prices above current levels.

Kern County Land: Under a wave of speculative buying, sparked by the bringing in of a new oil well, regarded as a significant discovery, on company acreage, this issue advanced from an April, 1952 low of 44¼ to 71 before the end of July in that year. It has since gradually settled back to its current level around 45. Principal earnings have their source in oil royalties earned through oil and gas production from lands owned by the company and leased to operating oil companies. Total oil revenues for 1952 of $17.2 million were augmented by $10.3 million in sales of 34,748 head of cattle raised by the company on its lands, and gross revenues of $3.4 million from sale of agricultural products, principally cotton and potatoes. Net income from all sources totaling $11.7 million was equal to $2.93 a share, compared with $2.84 in 1951, and $2.96 in 1950, on the basis of present capitalization. Relative stability of earnings affords a good margin of safety for dividends at the current rate, and there remains the possibility of new discovery wells being brought in on some of Kern's extensive oil land holdings that might incite another wave of speculative demand for the stock.

Masonite Corp.: Weakness in the market for this issue which has been carried down from a 1952 high of 33½ to present low level around 19½, expresses disappointment over the sharp drop in earnings in the last three years, and indications that the downtrend will be continued through 1953. Net for the six months ended February 28 last, amounted to $1.07, a decline from $1.36 shown for the same period of last year, although sales in the 1953 period of $22.2 million were up from $21.9 million last year. Contributing to the poorer showing are the difficulties being experienced in getting the new Ukiah plant properly set up for efficient operation. These have entailed abnormally high costs and substantial losses at that plant during the last fiscal year. The company's hardboards, used for building interiors and exteriors, furniture and in expanding industrial applications, encounter competition from numerous types of lumber, gypsum products, and plywood, output of the latter product expanding at a rapid rate within the last few years. The current modest dividend should be well covered this year, but the stock does not appear to hold any dynamic possibilities marketwise, although there is room for some improvement from current price levels.

Merck & Co.: Partially explaining this issue's decline from 35½ to current low around 19, is the reaction of speculative buyers of the drug stocks to the failure of those issues to continue a rapid climb to still higher market levels on the strength of the undue publicity afforded the so-called miracle drugs in 1952. More directly, however, the fact that net sales of Merck for that year, amounting to $105.7 million produced but 96 cents per share in earnings was disappointing. In the previous year, net was equal to $1.62 a share on $120.2 million of sales. Accounting for the decline in 1952 sales and earnings, in part, were lower unit and dollar sales of penicillion and streptomycin, due to general overproduction and reduced prices. However, earnings were also cut by charging more than $1 million for accelerated depreciation for new facilities and an increase of $850,000 over the 1951 total for research expenses, bringing that item up to $5.5 million for the 1952 year. Merck has made substantial strides in developing sales of vitamin products, a number of new antibiotic products, and hormones, including Cortone now being produced through an improved process at its new Cherokee plant which got into operation only last year. Merck is definitely a growth company. Its modest dividend should be maintained, and the stock is worth retaining for its long-range possibilities.

New York, New Haven & Hartford: The advance to a high of 34 for this issue, recorded in February, 1953, reflected competitive bidding by two opposing factions for control. A compromise agreement between them, reached at the time of the annual meeting, removed the market props and the issue has been since settling to around current levels in the neighborhood of 21. Speculative interest in the stock continues on the prospects of the road being able to clear-up dividend arrears on the 5% preferred stock, on which there is still owing $6 a share, or approximately $8 million, thus opening a way to a declaration of some sort on the common. Over the last four or five years, management has achieved a reduction of more than $50 million in capital obligations, and a saving of better than $1.7 million in interest charges. While there is nothing definite in the immediate outlook to warrant great optimism over common stock earnings, possibilities in the situation justify retention of the shares on a speculative basis.

Parke, Davis & Co.: The precipitate drop in the market price of the stock and in earnings (as reported for first quarter 1953) is entirely associated with the large loss in volume of business in chloromycetin and other antibiotics. Adverse publicity on chloromyectin resulting from unexpectedly pessimistic medical reports caused a severe drop in sales last autumn. Though there has been some increase in sales since, net earnings for the first quarter of 1953 were only 45 cents a share, compared with $1.05 a share in the corresponding period of 1952. Another factor contributing to the decline in sales has been intensified competition in other products, especially penicillin, a field into which some manufacturers of proprietary drugs have been entering. As a result, price cuts developed with a direct effect on earnings. Sales in the fine medicine field, in which the company is a leader, have continued satisfactory and it is believed that once the company has

organized itself to meet the new circumstances, it will recover in earnings. At the present low price of the stock, therefore, retention would seem advisable.

Servel, Inc.: The erratic earnings record of this company is indicated by the sudden turnabout in earnings in the fiscal year ended, October 31, 1952. In that period earnings were 85 cents a share compared with a deficit of 69 cents the previous year. The reversal is attributed to a large increase in production for military needs. To widen its sales base, the company has been engaged in diversifying its products for civilian use. Among them are an all-year residential air conditioner and electric refrigerators of the compressor type. The field is highly competitive, however, and while sales should increase in these departments it does not appear likely that the volume of net profits will be commensurate. A dividend of 50 cents a share was paid last year but in view of the uncertain earnings outlook, there is some doubt about the rate of payment in 1953. The stock must be considered highly speculative and does not warrant retention.

J. P. Stevens & Co.: This largest textile manufacturer, on the whole, has more satisfactorily resisted the generally unfavorable conditions in the industry than other concerns. While earnings have slumped considerably, they have nevertheless been above dividend requirements, which is rather exceptional for this industry. Earnings in 1951 were $5.65 a share and dropped to $2.27 a share in 1952. In the first quarter of the fiscal year, ending January 31, 1953, earnings picked up and were 58 cents a share, slightly up from the previous quarter. This is not much of an improvement but it is believed the second quarter may show a further gain. In any case, according to company officials, earnings for the fiscal year ending next January 31 should be at least equal to the previous year and may be slightly above. Of cheer to stockholders is the cutback in capital expenditures as a result of the inclination of the directors rather to continue the regular 50-cent quarterly payments. On this basis, the stock should be retained, especially after its 38% decline to current prices of 27 from last year's high of 44¼.

What's Behind the Mergers in the Shoe Industry?

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marily family shoe stores carrying high grade shoes. The Guarantee units consists of outstanding retail operations in San Antonio and additional suburban stores in that area.

Apparently, in this matter of developing direct representation in the retail field by acquiring established shoe store chains and other outlets, General Shoe has set the pace. It begins to appear that the big shoe manufacturers are now vying with one another for control of other retail outlets. Within the last month or two, Florsheim Shoe whose quality products for men and women are sold through some 5,000 independent dealers and 85 retail stores operated by subsidiaries throughout the United States, has been acquired by International Shoe. Brown Shoe, for some time quietly picking up Regal Shoe Co., stock, announced in the latter part of May that it had gained control of that organization and its 110 retail shoe stores and leased departments in 56 cities in 24 states and the District of Columbia.

It may be that the shoe industry has yet to see the end of this scramble by the big shoemakers for retail selling outlets. Melville Shoe has already grabbed up Miles Shoes, Inc., operating a chain of 151 retail units with about 95% of sales volume consisting of women's and children's shoes, the balance made up by men's footwear. While Melville was probably prompted to make this deal by the thought that the two organizations would complement each other, the acquisition should make it possible for Melville to use the Miles' units as family stores offering a complete line of footwear in the popular priced brackets for women and children, including as well, Melville's lower priced shoes for men,

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What's Behind the Mergers in the Shoe Industry?

(*Continued from page* 411)

thus giving its shoe factories additional outlets for the latter product.

Summing up, these moves, on the part of the manufacturers mean that they are going into the retail field in a big way. Although the trend set in more than two years ago, the movement may have gained momentum by the resistance shown at the beginning of the 1953 year by a number of independent shoe retailers to price increases put into effect by the shoemakers in an effort to offset higher costs, particularly in distribution and wages. While the big shoemakers recognize the value of these independent retail outlets, they are undoubtedly becoming increasingly conscious of the need to strengthen their competitive positions through the operation of firmly-set franchise stores and expanded retail store operating divisions.

Total production of all types of shoes and slippers by the domestic shoe industry last year was close to 509 million pairs. This was approximately 8%, or 39 million pairs more than it produced in 1951. Of this total, International Shoe accounted for 53.3 million pairs, producing net sales of $217 million. Military business for the year was comparatively small, amounting to $6.4 million, reflecting the Government's sharp cutback in its footwear procurement program. Civilian business for the year increased $18.7 million and despite a decrease of more than 10% in civilian shoe prices, net for the year was equal to $2.44 a share.

Brown Shoe reported net sales of $130.3 million, up $19 million from 1951. Output of shoes increased by almost 2 million pairs for the year, and net earnings were equivalent to $6.04 a share, as compared with $5.43 in 1951, based on average shares outstanding in that year. For 1952, General Shoe came through with net sales of $104.3 million. This was an increase of $1.1 million over the previous year although higher income taxes for 1952 held earnings to the equivalent of $4.11 a share, as against $4.50 a share in the previous fiscal 12 months ended Oct. 31.

These producers, along with the rest of the industry, are facing a good 1953 year. Indications are that costs and raw materials prices, which now appear to be stabilized, will continue to hold around current levels. Profit margins should be maintained.

A Radical Change in the I. T. & T. Setup

(*Continued from page* 395)

$173.2 million.

Paralleling this growth, share earnings on a consolidated basis have expanded from three cents a share in 1947 to $3.09 for 1952, as compared with $2.60 a share in 1951. This record of consolidated sales and operating revenues, as well as per share earnings is warped to some degree inasmuch as undistributed net income of foreign subsidiaries does not represent, in its entirety, U. S. dollars immediately available. Barriers to free exchange and limitations placed by certain foreign governments on dividend payments by overseas subsidiaries, restrict the normal flow of funds to the parent company, although the corporation received more dollars from its operations abroad in 1952 than in the previous year.

These restrictions are not recent developments. Nevertheless, they complicate the parent company's financial statements made more complex by the fact that it cannot reflect therein the full benefits derived from domestic manufacturing so long as these activities are carried on by subsidiaries and not as divisions of the corporation. They have become important sources of equipment and accessories for wire and radio communication systems, including such vital products as coaxial cables, microwave radio links, transistors and diodes, railway and power control and signalling equipment, special electronic systems and computers, and many others.

Among the wholly-owned subsidiaries involved in the proposed merger is Federal Telecommunications Laboratories, Inc., the research and development associate of I. T. & T., and one of the nation's leaders in the development of radio and electronic equipments. Another is the Federal Telephone & Radio Corp., supplying the U. S. Government with a wide variety of equipment, and producing complete automatic telephone systems, radio relay communication systems, radio aids to aerial navigation, and mobile radio for vehicular and railroad use, and a number of other electronic and electronic equipments. Total sales of this subsidiary for 1952 increased approximately 70% over the previous year, a substantial portion of which was for the U. S. Government, business that was, in large part, initiated by developments in the research laboratories of Federal Telecommunication.

The third subsidiary in the proposed merger is Capehart-Farnsworth, an outstanding name in radio and television, manufacturing an increasing volume of special equipment for the national government. Through its Research and Development Division, Capehart has achieved important developments, both for the defense program and for commercial applications, the results of which are partly reflected in sales by its Technical Production Division in 1952 increasing by 78% over 1951 volume. Named as another candidate for merging is the Kellogg Switchboard & Supply Co., since 1897 a principal manufacturer of telephone apparatus and equipment. Kellogg is one of the major suppliers to the independent telephone operating industry in the U. S.

Somewhat obscured by the broad coverage of these various subsidiaries in the field of wire and radio communication and the manufacture of electronic equipment is the fifth subsidiary in the proposed merger, the Coolerator Co., which gives I. T. & T. representation in the field of room air conditioners, electric ranges for the home, refrigerators and freezers. Among other consumer goods produced by I. T. & T. factories are such items as hearing aids, electric broilers, light bulbs, induction heaters, irons, light meters, hot plates, floor polishers, radiators, roasters, toasters, washing machines, vacuum cleaners, and fractional-horsepower motors.

In each of the last four years, the corporation has experienced a rising tide in its backlog of orders. At the close of 1952 the volume of orders on hand for its domestic factories alone amounted to $206 million which was approximately $4 million greater than the total

backlog of the combined United States and foreign factories in 1949. As of December 31, last, its foreign backlog stood at $224 million, bringing the grand total at the beginning of 1953 to $430 million.

Reflecting the growth in operations and earnings, I. T. & T., after a lapse of 18 years, resumed dividend payments with the declaration of 15 cents a share in the latter part of 1950, and supplemented that with a 5% stock distribution. Since then it has paid cash dividends totalling 65 cents in 1951, and during 1952 made total distributions of 85 cents a share. The initial dividend declared for payment in the current year was at a 25 cents quarterly rate. With earnings substantially above this level, the dividend seems assured. The stock is worthy of retention on a long-term basis.

Down-to-Earth Survey of Tidelands Oil Companies

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to the same extent as from wells inland in these states.

Another detail that must be worked out is where the line marking the boundaries between the submerged lands belonging to the states and those coming under Federal auspices should be drawn. Solving this problem may or may not require considerable time and until it is solved, may act as a deterrent to drilling operations in areas where there is doubt as to jurisdiction. This, however, is looking beyond the horizon. The immediately prospective area of the Gulf to 60 feet water depth is approximately 14,000 square miles. Current production from wells, principally along the Louisiana coast, in comparatively shallow water, is close to 18,000 barrels daily. Predictions are that the Gulf will become the major producing area with the discovery of an important number of oil and gas fields within the next five years. It is estimated that within that time output will reach about 200,000 barrels of petroleum liquids and from 600 to 800 million cubic feet of natural gas daily.

Before this rate of production is achieved, however, a considerable amount of exploration work must be done. Most of the large oil companies holding Gulf leases are not moving with any great speed, their general policy being one of caution, having in mind the costs and difficulties likely to be encountered in exploratory and drilling work. While many of them are taking preliminary steps

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Down-to-Earth Survey of Tidelands Oil Companies

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toward assembling crews and equipment, activity will probably be delayed until the states bordering on the Gulf start putting up new leases, probably by the end of the year. Then, they will most likely proceed slowly, providing that by that time there is still need for clarification of details concerning the outer shelf, particularly in apportioning policing and taxing powers in that area, as well as setting up conservations to conform with those now carried out by the states.

Before any of the oil companies get very deep in offshore drilling operations, they are going to weigh the risk and the cost of bringing in a well. Oil men, familiar with the conditions to be encountered in the Gulf, are agreed that only a certain number of high-yielding fields could produce economically under today's prices and operating costs. While the techniques for comparatively shallow water drilling have been proven, it is generally recognized that the technology of drilling in waters 30 to 60 feet deep, and deeper, will have to be developed. There equipment must be able to stand up against the onslaughts of hurricanes and, for that matter, sudden squalls which have been known to develop winds of 75 miles an hour.

Unlike drilling on land where the rigs can be set upon solid ground, operations on water must be carried on from platforms, the modern type being prefabricated, supported by steel pilings driven 100 feet or more into the land beneath. The decks are usually placed not less than 25 feet above mean water level as protection against high running seas, especially under big "blows." A development affording some protection in hurricane weather is a "U" shaped and mobile drilling barge unit built by Bethlehem Steel Co., which in the event of high velocity winds can be moved to a sheltered area. This device is considered to be of value for shallow water operations. The barge can be equipped with necessary rotary drilling machinery at the shipyard located on the Texas gulf coast, and is capable of being submerged in water at depths up to 15 feet. The use of a barge of this type saves the time required to erect, dismantle and transport drilling platforms, and its derrick, extending as high as 186 feet, will lift more than 1 million pounds of drilling pipe and sink a well 18,000 feet deep.

Still, drilling oil wells and producing oil offshore continues to be a case of "men against the sea". Transportation from wells to land points creates another problem. Nearby offshore wells can be hooked up to pipelines, but output from wells farther out must be carried away in barges. Weather conditions are not always favorable and there may be days when it would be impossible for these carriers to tie up to take on cargo. Perhaps a better understanding of conditions to be encountered in the Gulf can be had from the knowledge that squalls there average three to four a month, with winds of 15 to 45 minutes durations and velocities up to 75 miles an hour, except during hurricanes when they may blow well over 125 miles an hour. These winds can kick up waves 20 feet high carrying a force, at their crests, calculated to have a pressure against perpendicular surfaces, of about 950 pounds per square foot. To these difficulties, actual and potential, must be added the cost of drilling. It is estimated that drilling a hypothetical well 9 miles offshore and about 50 miles from the nearest deep water harbor would cost in excess of a half million dollars. This is based on drilling costs of about $4,471 a day over a hundred day period, amounting to $447,100, plus cost of casing and tubing, figuring depth of the well from 10,000 to 12,000 feet, amounting to $125,000.

There's oil in the submerged lands off the coast of California and in the Gulf. The U. S. Geological Survey has estimated that the value of potential reserves in the continental shelf off California, Louisiana and Texas runs to approximately $38 billion. Frankly, however, the oil companies will probably proceed slowly in exploiting these potentials, considering the hazards as well as the cost. In any event, it is not likely that there will be any immediate stepping-up of drilling activity. Probably by next year there may be an increase in the number of casings going down to the oil sands. Many of the companies with leases there are now planning the preliminary steps, while more and more seismographic crews are going out, probing for the oil deposits.

Meanwhile, many of these companies are, and have been for some time, producing from lands below inland waters or immediately offshore. Standard Oil of California's producing subsidiary, The California Co., is currently drawing about 9,000 barrels daily from about 43 wells in the Mississippi Delta. Magnolia Petroleum, Socony-Vacuum's subsidiary, in conjunction with Continental Oil and others, is producing 3,500 barrels daily from offshore wells, one of which is located about 28 miles out in the Gulf. Other producers with offshore wells are Sun Oil, Shell, Pure Oil, Phillips, Standard of Indiana, Humble Oil & Refining, as well as many others. While Gulf Oil which has a score or more producing wells in inland waters, it is drilling one offshore well at the present time and is understood to be planning for expansion on an extensive scale for operations seaward.

As already pointed out it may be some time before production from the Gulf area reaches substantial proportions, but it is likely that operations in the area will prove highly profitable and of great benefit to those companies we have listed in the accompanying table.

For Profit and Income

(*Continued from page* 403)

1953 and probably a moderately higher figure, allowing for volume growth, in 1954. This is a good-quality stock on which dividends should at least equal last year's $2.20, yielding about 6.2% at current price of 35½. Southern Natural Gas is another growing gas system aided by rate relief, which figures to lift earning power substantially from the $2.08 a share in 12 months through March 31, against $2.15 in the calendar year 1952 and $2.14 in 1951. Dividends are on an amply protected $1.40 basis, yielding over 5.8% at current price of 24. For issues rated as growth stocks, these yields are relatively good—even though it should not be for-

gotten that profit growth is not the same thing as volume growth, with the latter assured and the former, due to rate regulation, far from unlimited.

Growth Utility

Electric utility stocks generally were at the lowest levels in many months at recent lows, directly reflecting higher bond yields. They are probably in a buying zone, though not necessarily on bottom, for long-term purposes, looking ahead to less active business conditions and to stabilized or easier money rates. Commercial demand for electricity is stable, residential demand trending up. Hence, most power companies are not much affected by cyclical shrinkages in the low-rate industrial load. Net income and dividends in this industry will rise moderately this year to new peaks. Confidence in long-term volume growth is shown by expansion plans projected over the next several years by most companies. The growth potential is outstanding in a few special-situation utilities. One such is Rockland Light & Power, a fairly small company operating mostly in New York and New Jersey counties on the outward fringe of the New York City commuting area, whose stock is traded over-the-counter. The special factor here is that completion of the New York Thruway and its Nyack-Tarrytown bridge will result in a population and light-industry shift into the company's area which can more than double its volume, and it has been trending strongly upward anyway, in, say, five years. The stock is currently quoted around 12. Earnings may be around 75 cents a share, or a little more, this year, against 65 cents last year. The 60-cent annual dividend rate might be modestly increased late this year or early in 1954. The stock should be an interesting speculative over the next several years.

Is Treasury's "Sound Money" Policy Feasible Now?

(*Continued from page* 378)

Association of Mutual Savings Banks, are eloquent. Mr. Burgess said:

"The sale of long-term bonds to investors, of course, carries a somewhat higher interest rate than the sale of short term securities to banks. *But this cost will be offset many times over if it lessens the risk of inflation.* It should be noted that the larger interest payments which the Treasury will be making on these bonds will be going principally to insurance companies, savings banks, pension funds and individuals and will benefit in this way millions of families who have been damaged by inflation and by inadequate returns on their savings because of artificially low money rates."

Of outstanding United States securities, including guaranteed securities, totalling $267,450,000,000, held by the public, the Federal Reserve Banks hold $23,944,000,000; commercial banks, $62,600,000,000; Mutual savings banks, $9,500,000,000; insurance companies, $15,200,000,000; other corporations, $21,800,000. These "other corporations" presumably include some finance companies engaged in automobile, appliance and similar types of financing although some such may be included in the category of "miscellaneous investors" where $12,100,000,000 is held. State and local governments hold $11,100,000,000. While the available statistics do not show a complete breakdown, it is known that the commercial banks hold most of the short-term securities with the longer term held in the other categories.

It is true that merchants carrying heavy inventories will find money tighter but it is believed at Washington that heavy inventories are a threat. It is probably true that losses will result in individual cases from necessity to move inventories. This is a matter of individual management and the Administration does not feel obligated to maintain an easy credit structure for this type of protection. Once again it is believed that the bank rate should be employed, as it was designed originally to be employed, as a stern regulator of credit.

No period of transition can be wholly free of readjustments, some of which doubtless will appear cruelly drastic to individuals and business firms who fall victims to immediate shifts. This is known at Washington and firmly faced in the belief that the ultimate benefits of release from the progressive drug-addiction of inflationary fiscal practices will not have been too dearly earned.

The Department of Labor reports a favorable labor outlook with employment due to increase while the Bureau of the Census shows employment of 61,658,000 in May, an increase of 430,000 over April and of 482,000 over May of 1952.

How sincerely the Administration has adopted its new policy and intends to cling to it as a major tenet may be read in the recent statement of William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System: "The significance of this transition is not to be found in interest rates but in its far greater implications, wholly apart from its economic effects. In a free market rates can

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Is Treasury's "Sound Money" Policy Feasible Now?

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go down as well as up and thus perform their proper function in the price mechanism. Dictated money rates breed dictated prices all across the board. This is characteristic of dictatorships. It is regimentation. It is not compatible with our institutions!"

New Metals Revolutionizing Industry

(*Continued from page* 381)

P. R. Mallory Co. Republic Steel is also reported to be a primary fabricator of titanium, while Monsanto Chemical, Dominion Magnesium, and Crane Co. are reported to be interested in making titanium sponge. American Cyanamid and Glidden are reported to be producers of titanium concentrates.

The outstanding highlights of the relative status of these companies in the titanium field are: 1. The Quebec Iron & Titanium Co. owns one of the largest deposits of titanium known, reported to have proven reserves of as much as 50,000,000 tons of ore, and should eventually become the major producer of ore and metal. 2. Titanium Metals Corp. and Rem-Cru Titanium Co. will produce both titanium sponge from concentrates, and fabricate the metal. But besides its indirect interest in Rem-Cru, Du Pont owns a property in Florida expected to turn out some 100,000 tons of titanium ores and concentrates annually. 3. Horizons Titanium is experimenting with production processes to reduce the cost of titanium metal, perhaps to as low as $1 a lb. or less, and will produce titanium sponge. 4. Mallory is producing titanium sponge for fabricating by Sharon Steel.

If titanium progresses as rapidly as many people expect it to, it is likely that several other producers of non-ferrous metals may attempt to develop new titanium deposits.

The atomic age has brought other metals to the fore as well, but some of them, such as beryllium, are too high-priced and rare to see much expansion in use. Nevertheless, beryllium can serve as a moderator and neutron reflector in the atomic energy field. Another such metal, zirconium, has a low absorption of neutrons and is being used to build atomic reactors. Moreover, high-temperature applications are making increasing demands for super-alloys containing unusually large quantities of such elements as nickel, chromium, molybdenum, tungsten and cobalt to the extent that some of these alloys contain less than 50% iron.

From a tonnage standpoint, it will probably take a decade before titanium will emerge as a volume nonferrous metal. But from a dollar standpoint, titanium is big business, even if its price were brought down to $1 a lb. within a few years. On the other hand, the next few years will see aluminum emerge as the Number 1 nonferrous metal, and its competitive position is likely to have an adverse effect on copper prices, as well as lead and zinc prices. Aluminum alloy tubing and castings could cut into the lead and zinc buisness, too. The copper industry has been understandably sensitive to suggestions regarding the substitution of aluminum for copper and has not relinquished its marketing pressures upon consumers for copper and brass products used in the home and upon industry stressing the technical advantages for using copper and brass. The metal is a better conductor of electricity than is aluminum, although one pound of the latter will do the work of two pounds of the former in conducting electricity, and do it more cheaply. The possibilities for substituting aluminum or magnesium for copper are limited by the differences in chemical properties of these metals, and the same holds true for lead and zinc. It will be a long time before zinc is replaced in galvanized steel, or lead is replaced in solder. However, the need for production economies and the desire to solve periodic shortages has forced industry to use less of certain materials, such as tin in tin-plating (partly inspired by shortages of the metal), and the use of less alloying elements in steel by the substitution of boron, an abundant element, for scarcer alloying materials. The ability to use 20% less tin in 1950, for example, than we did in 1941, although we produced 33% more tinplate in 1950 illustrates how pressures on material supplies can be eased or altered by technical developments mothered by the necessity of shortages.

Plastics as Competitor

It should be noted that the metal situation is further complicated by continuing competitive pressure from plastics. One of the latest developments has been corrosion-resistant pumps, valves and accessories made from plastics. A small corrosion steel producer bought the controlling interest in this plastic pipe producer, and U. S. Steel is busily testing other types of plastic pipe. Meanwhile, other steel companies have secured option on a process for glass-fiber-reinforced plastic pipe. Plastics have infiltrated most metal-using industries and replaced metal or wood in both consumer and industrial durable goods.

The record indicates that progressive managements in the metal field are ever alert for competitive materials, and if they "can't lick 'em, they ji'n 'em". Just as National Lead, New Jersey Zinc, and Kennecott Copper got into the titanium field, so has Anaconda Wire & Cable gotten into the aluminum wire business and is now getting into the production of aluminum ingot. In a similar fashion, steel producers are moving into the nonferrous and plastic fields to help cope with newly developed competition, and use their wealth of experience to help speed the exploitation of new materials. This means further searches for wider applications of metal with special properties, further efforts to save weight or reduce costs by material substitution, and attempts to develop methods for processing low-grade ores economically. The pressures between the various metals are ever shifting. The development of aluminum alloy sucker rods in oil-well drilling will replace alloy steel, and the availability of the latter will change thinking and planning on its application to other uses.

These considerations and the continued success of our engineers serve to revise bearish estimates of the longevity of our various known mineral deposits, such as were made in the "Paley Report" of the President's Material Policy Commission of a year ago. As we develop new metals, such as titanium, we will conserve others, while the recovery of materials that have heretofore been wasted, such as manganese from discarded

slag or copper from long-abandoned tailings, also revises estimates of our resources and their prospective life.

Thus, companies with excellent research facilities become extra attractive to the investor with an eye to new metal horizons. Such research does not merely cover the laboratory phase, but also the marketing phase.

A Study of Commodity Prices In War and Peace

(*Continued from page* 383)

This may reduce factory operations on defense items abroad and is another factor in maintaining pressure on world prices.

The question of the future of prices — raw materials, wholesale and retail — is tied up these days with wholly unusual factors and, in many cases, unpredictable. These relate to United States and international policies on the strategic military and political fronts. Any ebbing of the tides of war are quickly reflected in a subsidence of demand for basic commodities, and any serious threat of a major crisis will tend to bring about a resurgence of higher prices. Thus, while the basic economic forces are in the direction of lower prices, this trend can be upset without notice, depending on the international political climate.

As things stand at the end of the first half of 1953, it would seem that the forces tending towards the creation of a more peaceful climate are in the dominance. Hence, the underlying pull toward a level of prices, the normal aftermath of the end of military operations, should continue to exert their influence.

The limits of any future decline in raw material prices from this time on are governed to some extent by the unusual rapidity and scope of the increase in prices which took place in the 12 months following the outbreak of the Korean war. This entire gain has now been wiped out and, in fact, prices are somewhat lower than at the beginning of the rise. At the point now reached, the trend will be governed by the business volume both here and abroad. Since there are already indications that industrial operations will recede, albeit moderately, there is no reason to believe that the decline in raw materials can be permanently arrested at this time.

As stated previously, the wholesale and retail price level is largely affected by the cost of labor. Since there are no indications at the present of any reversal in this trend,—in fact, wages are higher than ever—declines in prices in these categories must be extremely limited if any adequate margin of profit is to be left to manufacturers and distributors.

The extreme reluctance of overall living costs to descend more than the most modest degree—despite the drop in food—is a reflection of the fact that it is very difficult to pass along to consumers the benefit of the drop which has already occurred in the primary markets. Any further drop in living costs, therefore, is bound to be most gradual and limited. Intensified competition at manufacturing levels for available markets will, of course, lower prices in selected finished products but most of these do not belong in the ordinary categories of living costs.

Many manufacturers and other business interests can partially counteract the effect of price fluctuations in the primary markets through hedging operations. For the convenience of readers who may not be familiar with these techniques, we are supplying the information below:

The commodity futures markets offer to producers, merchants, and processors of commodities the opportunity of minimizing the risk of losses through price changes by utilizing the exchanges for "hedging". This often has been defined as "price risk insurance", and is similar to other types of insurance in that the risk is passed along to someone else who is willing to accept it, frequently the much-maligned speculator. The ability to use the futures markets for restricting possible losses through price changes is due to the fact that prices of futures and of actual or spot commodities tend to fluctuate very much in unison.

A cotton merchant may buy large quantities of cotton from farmers in the Fall as the crop is marketed. Since he has no orders for cotton on hand from mills and does not want to run the risk of heavy losses if cotton prices should decline, he advises his broker to sell for his account an equivalent amount of cotton futures contracts. This is known as a "short hedge". As the merchant receives orders for raw cotton, he advises his broker to buy in an equivalent amount of futures contracts. The loss or gain on the raw cotton side of the ledger offsets the gain or loss on the futures transactions.

A cotton manufacturer may receive orders for cloth but does not have the necessary raw cotton on hand to manufacture the cloth. While his selling price for cloth is based on the current cost of raw cotton and shows a paper profit, this profit may be wiped out if raw cotton prices rise before he is able to buy the necessary amount of raw material. Consequently, he takes out a "long hedge", i.e., orders his broker to buy an equivalent amount of futures contracts. When the manufacturer locates and buys the raw cotton needed to fill the cloth order, he advises his broker to sell the futures contracts. With prices of raw cotton and futures moving in unison, no loss to the manufacturer is incurred if cotton prices have risen, since the profit on the futures transaction offsets the rise in raw cotton prices and thus maintains his cotton-cloth margin intact.

Those who hedge forego the opportunity of speculative profits if prices should rise while they are "long" the actual or spot commodity, ex. the cotton merchant, or if prices should decline while they are "short" the actual commodity, ex. the cotton manufacturer. In return, they obtain protection against adverse price changes.

BOOK REVIEW

HOW TO RAISE CASH

The purpose of this book is to explain the banker's viewpoint to the businessman, to break down the kinds of money available to him into categories and to discuss them in plain words so that the ordinary man who has sales to get and payrolls to meet can read as he runs. The author tells about the different kinds of money, where to find them, what to pay for their hire, what borrowed money or investment capital can do for your business. Advice in this book will give businessmen a new insight on how their financial capacity can be increased by wise use of finance companies, factors, and other sources of accounts receivable and inventory financing.

Business Reports, Inc. $12.50

The Navy's Viewpoint

The following letter is in response to certain statements related to naval aircraft made in our article "What is the Mystery in the $110 Billion Defense Appropriations" appearing in our April 4 issue. We are glad to publish Captain Lattu's comment. (Editor)

Editor,
The Magazine of Wall Street,

The military forces of the United States are planned, equipped and provided with certain capabilities in order to defend and protect the U. S. A. Although it may be an unknown quantity, it constitutes an effective military potential. The extent of the capabilities has been carefully determined in terms of their effective use during a possible Global War, and has been coordinated with the military capabilities of the Allies of the U. S. A., and potential enemies.

Fortunately for the U. S. A., our democratic form of government requires, encourages, and/or permits the qualified representatives of the three armed services to state their views with respect to the men and material which they need in order to perform their assigned functions. It must be obvious to the well-informed reader that budgetary economies and sound governmental administration require that intelligent limitations be established with respect to the appropriations approved for the military services. These limitations have caused, and will cause, the three services and other cognizant governmental activities and officials to pare their requests in such a manner as to insure their most effective future application. It must surely be apparent that reasoned differences of opinion will take place incident to this paring. I believe it to be quite unfair that a member of the press color the news to the extent that these reasoned differences of opinion are presented as "bitter bones of contention," as well as "storms of controversy on this issue rage in Congress." Human relations involve many of us in situations where the point at issue may at times be presented quite forcefully. This does not reduce in any respect the soundness or the validity of the argument.

The cost of the large carriers is actually very low when compared with their overall effectiveness in wartime, and especially when compared with other systems for defense; offense having somewhat similar capabilities.

I am sure that Congress has facts and figures showing that Korea is in no sense a typical military campaign, or a war; therefore, dangerous inaccuracies are prone to occur when commenting on the proposed capabilities and extent of the armed forces of the U. S. A. when using only Korea as an example.

To fly a mission under combat conditions may mean many things. To military men it means the effect derived on the enemy. It is known that carrier-based planes shoot or drop approximately 1½ times more bullets, bombs, rockets, napalm, etc., per close support flight, than do the land-based planes. Furthermore, the admirable reputation of Naval aviation for accuracy second to none is being enhanced by the Korean operations.

On the basis of the best information available it appears that the cost of short range land-based air (sic) deployed to forward field on a short term basis would cost several times as much as the carrier-based aircraft with the same capabilities. Furthermore, the carrier-based air has mobility and can perform the same mission in many successive areas without the necessity for constructing the additional infra-structure. The total costs of land bases include many factors that may have been unknowingly omitted. Also, predicted damage to land bases, plus their rapid attrition in the event of the movement of ground forces (either way) can be expected to impose a drastic amortization rate. If these bases must be seized and defended, the cost to do so may be incalculable, in blood, dollars, or both.

O. P. Lattu,
Captain, SC, USN.

The Trend of Events

(*Continued from page* 372)

this field of average people should not be extensively cultivated.

It will not be successfully cultivated, however, unless the Exchange can find a way of dispelling the widespread impression in the country at large that the membership in reality represents a sort of private club dedicated more to narrow market interests than the public good. It must be admitted that aside from the welcome efforts of a few firms, the membership at large has seen its function too narrowly. It must of course, demonstrate its responsibility to its clients, but at the same time it should not ignore its duty to help educate the broad masses of the American public. This is not only sound policy but good business practice, especially in a field which must perforce lean heavily on public good-will.

Millions of Americans are aware that an education in investments is a necessary thing. They show this interest by their attendance at lectures, university classes and Chamber of Commerce meetings; and, by reading and studying financial publications and books on investment subjects. Their appetite for this sort of information is keen indeed. In recognition of this fact, the Exchange should do all within its power to extend the scope of investment education in the interest of a better-informed America. It should initiate and develope a coordinated and effectively-planned long-range program for this purpose. To do the job well, it should be willing to provide the necessary funds. If the Exchange really wishes to extricate itself from the troubles caused by the relative public indifference to stocks, it will have to do something on its own account and that means, as indicated above, a good deal more than the mere raising of commission rates.

As I See It!

(*Continued from page* 373)

Germany, and that's what the unification would mean, as a definite sign of the Kremlin's weakness and a Russian retreat. As General of the Army, Omar N. Bradley recently told the Senate Foreign Relations Committee the Russians may be pulling back from their exposed position in Central Europe because they fear increased United States military strength and need time to consolidate their position at home. The realists in the Kremlin know only too well that Russia can no longer hope for control of the

(*Please turn to page* 420)

As I See It!

(*Continued from page* 418)

vast industries of the Ruhr: the rearmament of the West and the uncertainty about the loyalty of their own people have been responsible for that.

And so the Russians are apparently concentrating on the next best thing from their viewpoint: a united and even re-armed Germany which because of her strength could be depended on to sow discord in the Western camp, a Germany which the Russians could tempt into signing another Treaty of Rapallo by dangling before it the reward of the return of Silesia, East Prussia and even the Sudetenland.

The Russians may have abandoned their original goals in Western Germany but the stakes for us are still high. They amount to this: can the re-united Germany—and to repeat again, re-united on the West's terms—be kept in the Western camp? This may depend on the economic concessions that the United States and Western Europe are willing to grant to the Germans. It will also depend on the turn which German nationalism will take. Will it be inclined toward democracy or toward totalitarianism? Only time will tell.

The Free World may be said to have won the battle for Germany which threatened to be another bigger Korea. German unification can very likely be attained without resort to a war. But will the West be able to follow up its victory and roll back the Russian host? The answer still lies with the Germans.

What of Your Stocks?

(*Continued from page* 375)

The strength of the banking structure, unlike that of 1929, is beyond question. So, if there is vulnerability in the economy, it would seem to be moderate rather than major.

The same is true of the stock market for a number of reasons. As major bull markets go, the one begun in mid-1949 has been relatively conservative, dominated more by selective investment than by general speculation. The margin position is insignificant. Relative conservatism is seen in a price-earnings ratio, for representative industrial stocks, around 11.0 at the January high, against about 16.0 at the 1946 high, over 17.0 at the 1937 high, and over 18.0 at the 1929 high. It is seen in an average yield on industrial stocks, at the high, of about 5.4%, against 3.5% at the 1946 high, a little over 4% at the 1937 high and barely over 3% at the 1929 high—with present dividends little more than half of corporate earnings, against around 75% in normal prewar years. Relative conservatism is also seen in the "speed limit" observed on the advances.

Thus, in 24 months to the high of last January the Dow industrial average had a net rise of 23%, against comparable figures of about 54% at the 1946 high, 102% at the 1937 high and 112% at the 1929 high. At recent low the average was slightly under its best level of May, 1951. Meanwhile, it had travelled a total distance of about 240 points, in a series of upswings footing up to about 119 points, and a series of downswings totalling 121 points. For all of the reasons cited, probably neither the basic position nor the technical position is as vulnerable as it may seem in the periods when the market is under pressure.

Finally, there is the all-important psychological aspect. It comes down to this: never before in our experience have so many investors and business men been on watch, over so long an advance period, for signs of economic deterioration. "The coming recession" is the most widely advertised one in history. Whether fears about it will prove well-founded, premature or exaggerated remains to be proven — but the chances for surprise would appear to be greatest on the favorable side, in view of advance psychological preparation.

The reasoning advanced here does not rule out periods of further and perhaps substantial decline. It does argue against *extreme* decline. If that is correct, if you figure tax liability on long-term profits taken and if you allow for the margin of error that will be involved in deciding when to buy back stocks sold now, there is much to be said for holding positions in individually sound stocks, provided reserves in cash or equivalent are ample. They should be around 40%, as we have for some time recommended. And funds left in common stocks should be mostly in good-grade income issues or selected growth stocks—or a combination of both, depending on your basic objectives — which is also as previously advised. If you still have an over-heavy position in cyclical and otherwise speculative stocks, it should be lightened in rally periods, even though summer-recovery tendencies in such issues might be disappointing to you in their scope.—Monday, June 22.

BOOK REVIEWS

United Nations Statistical Yearbook 1952

Note. This is the fouth issue of the Statistical Yearbook, the previous issues being *Statistical Yearbook 1948*, *Statistical Yearbook 1949-50* and *Statistical Yearbook 1951*. It is a large volume of 554 pages and contains 177 tables, an appendix and separate alphabetical subject and country indexes. All titles, heading, notes and text are given in both English and French.

The territorial coverage of the tables is as world-wide as the available information permitted and a large number of tables give "world totals." A special endeavor was made to present the statistical series for the various countries on as comparable a basis as possible, and to that end index numbers have been converted to a common base (1948-100). The bulk of the tables cover the period 1932-1951 (1932/33-1951/52); a number of tables, however, cover the period 1929 to 1951 and some have been brought up to the early part of 1952. Corresponding data for 1928-1931 can generally be found in the preceding issues of the Yearbook.

Prepared by the Statistical Office of the United Nations. Clothbound: $7.50; paper bound: $6.00

People, Places, and Books

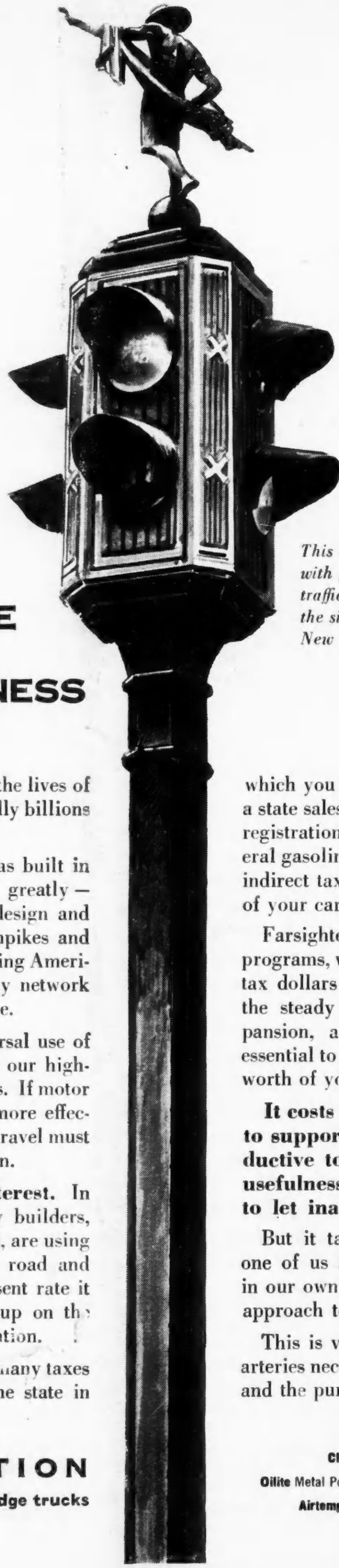
By GILBERT HIGHET

Rarely do graceful ease and wisdom blend so happily as in these pages where a man of consummate good taste and charm discourses lightly on important matters—on interesting, worthwhile books and on the men and women who write them. For Gilbert Highet, unlike the exclusive cliques who would make literature the private domain of the few, believes that the best books and authors have a lot to say to all of us, provided, as he puts it, 'we will use our minds.'

And as we follow him on his travels we too come to be part of this magic world of books and ideas and come to share with him in the delights and joys it has to offer. This is the prize that awaits us at the end of our journey with Gilbert Highet.

Oxford $3.50

SYMBOL OF A VITAL ARTERY OF LIFE, LIBERTY AND THE PURSUIT OF HAPPINESS



This helmeted figure, bronze with gold leaf, symbolizes modern traffic movement. It adorns the signal lights along New York City's Fifth Avenue.

The motor vehicle has expanded the lives of millions of families, adding literally billions of hours of happiness each year.

Since the first Chrysler car was built in 1924, highways have improved greatly—in durability, surfacing, safety design and number of highway miles. Turnpikes and expressways have been added, giving Americans today a highway and byway network never equaled by any other people.

But, in many areas, the universal use of motor transportation has outrun our highways, streets and parking facilities. If motor vehicles are to contribute even more effectually to better living, arteries of travel must be freed of hazards and congestion.

Your dollars and your interest. In many places, American highway builders, the most experienced in the world, are using your tax dollars to better your road and highway system. But at the present rate it would take years just to catch up on the backlog of projects awaiting attention.

Your car or truck is subject to many taxes—among them, depending on the state in which you live, are a general property tax, a state sales tax, a Federal excise tax, a state registration fee, a state gasoline tax, a Federal gasoline tax and others. And direct and indirect taxes equal over 30% of the price of your car.

Farsighted local and state administrative programs, which do not divert your highway tax dollars to other purposes, can provide the steady roadway maintenance and expansion, and the increased traffic safety essential to the growing economic and social worth of your motor vehicle.

It costs less to have good roads than to support poor ones. It is more productive to take advantage of the full usefulness of the motor vehicle than to let inadequate roads limit its use.

But it takes the active interest of each one of us in stimulating and encouraging in our own localities a competent, vigorous approach to roadway improvement.

This is vital if our nation is to have the arteries necessary for its very life, its liberty and the pursuit of its happiness.

CHRYSLER CORPORATION

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Chrysler Marine & Industrial Engines
Oilite Metal Powder Products • **Mopar** Parts & Accessories
Airtemp Air Conditioning, Heating, Refrigeration
Cycleweld Cement Products

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